GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial Advisory Authority

Municipal Secondary Market Disclosure Information Cover Sheet
Municipal Securities Rulemaking Board (MSRB)
Electronic Municipal Market Access System (EMMA)

THIS FILING RELATES TO A SINGLE BOND ISSUE:

Name of bond issue exactly as it appears on the cover of the Official Statement:

____

____

____

Nine-digit CUSIP* numbers if available, to which the information relates:

____

____

THIS FILING RELATES TO ALL OR SEVERAL SECURITIES ISSUED BY THE ISSUER, OR ALL OR SEVERAL SECURITIES OF A SPECIFIC CREDITOR:

Issuer's Name: Puerto Rico Highways and Transportation Authority

Other Obligated Person's Name (if any): ______________________________

Six-digit CUSIP* number(s): 745181, 745190, 745185 (Teodoro Moscoso Bridge)

TYPE OF INFORMATION PROVIDED:

A. ☐ **Annual Financial Information and Operating Data pursuant to Rule 15c2-12**

Fiscal Period Covered: ______________________________

B. ☒ **Audited Financial Statements or CAFR pursuant to Rule 15c2-12**

Fiscal Period Covered: 2014-15

C. ☐ **Notice of Failure to Provide Annual Financial Information as Required:**

I represent that I am authorized by the issuer, obligor or its agent to distribute this information publicly.

/s/ Sebastián M. Torres Rodríguez

Sebastián M. Torres Rodríguez
Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for the Commonwealth

Dated: October 23, 2017

AUDITED FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND SUPPLEMENTAL SCHEDULES

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)
Year Ended June 30, 2015

With Report of Independent Auditors

Building a better working world

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Financial Statements and OMB Circular A-133 Report on Federal Financial Assistance Programs

Year Ended June 30, 2015

Contents

Financial Statements

EY
Building a better working world

Ernst & Young LLP
Plaza 273, 10th Floor
273 Ponce de León Avenue
San Juan, PR 00917-1951

Tel: +1 787 759 8212
Fax: +1 787 753 0808
ey.com

Report of Independent Auditors

The Board of Directors
Puerto Rico Highways and Transportation Authority

Report on the Financial Statements
We have audited the accompanying financial statements of the Puerto Rico Highways and Transportation Authority (the Authority), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit qualified opinion.

Basis for Qualified Opinion
As described in Note 2 to the basic financial statements, the Authority has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standard Board, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68,* because the final audited pension information from the Employee Retirement System of the Government of the Commonwealth of Puerto Rico is not readily available. Therefore, the Authority has not recorded its proportionate share of net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense, and the Authority has not recognized the effect of current period changes

EY
Building a better working world

in the net pension liability as it relates to, deferred outflows of resources, deferred inflows of resources and pension expense for the year ended June 30, 2015.

Accounting principles generally accepted in the United States of America require that the net pension liability, deferred outflows of resources, deferred inflows of resources, as applicable, be recognized in accordance with parameters established by Statements No. 68 and No. 71, as well as the effect of current period changes of the Net Pension Liability that must be recognized in pension expense during the current period. Preliminary unaudited estimates made by the Employee Retirement System of the Commonwealth of Puerto Rico indicated a possible additional liability arising from the adoption of this statement of approximately of $505.6 million as of July 1, 2014 and June 30, 2015. Most of the impact affects net position as of July 1, 2014 and June 30, 2015; however, it will also require adjustment to the deferred outflows of resources, deferred inflows of resources, as of July 1, 2014 and June 30, 2015 and pension expense for the year then ended.

In addition, the accompanying notes to the basic financial statements do not disclose the pension related information required by Statement No. 68. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion
In our opinion, except for the effects of the matter described above in the Basis for Qualified Opinion paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2015, and the changes in financial position and, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

The Authority's Ability to Continue as a Going Concern
The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Notes 20 and 21 to the financial statements, the Authority has significant recurring losses from operations and does not have sufficient funds available to fully repay its various obligations as they come due, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 20. Further, in Note 21, management discusses its recent filing on May 21, 2017 of a form of bankruptcy petition under Title III of PROMESA. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Required Supplementary Information
U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 24 and the schedule of funding progress for retiree health plan on page 93 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

EY
Building a better working world

Management has omitted the Schedule of Authority's Contributions and the Schedule of Authority's Proportionate share of the Net Pension Liability that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The schedule of revenues and expenses by segment is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2017, on our consideration of the Puerto Rico Highways and Transportation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

August 4, 2017

Stamp No. E286571
affixed to
original of
this report.

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Management's Discussion and Analysis

Year Ended June 30, 2015

The following discussion and analysis of the financial performance and activity of the Puerto Rico Highways and Transportation Authority (the Authority) provides an introduction and understanding of the basic financial statements of the Authority for the fiscal years ended June 30, 2015 and 2014. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

June 30, 2015 and 2014

The Authority's net position totaled $3,026.4 million and $2,977.4 million at June 30, 2015 and 2014, respectively. Net position increased by $49 million in 2015, as compared to a decrease of approximately $190.2 million in 2014.

The Authority's net capital assets, including assets under service concession agreements, totaled $10,603.3 million and $10,909.8 million at June 30, 2015 and 2014, respectively. Net capital assets decreased by 2.8% at June 30, 2015, when compared with the balance at June 30, 2014.

Financial Statements

The basic financial statements provide information about the Authority's business-type activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Financial Statements for Business-Type Activities

The financial statements consist of the: (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, (3) statement of cash flows, and (4) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with U.S. generally accepted accounting principles.

Statement of Net Position

The statement of net position reports all financial and capital resources of the Authority. The statement is presented in the format where assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources plus net position. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash within one year) and noncurrent. The focus of the statement of net position is to show a picture of the liquidity and financial health of the Authority as of the end of the year.

The Authority's net position is reported in the following categories:

- *Net Investment in Capital Assets* – This component of net position consists of all capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from toll operations, vehicle license fees, certain investment income, gasoline and petroleum taxes allocated annually by the Commonwealth of Puerto Rico, since the capital assets themselves cannot be used to liquidate liabilities.

- *Restricted for Debt Service* – This component of net position consists of restricted assets for the principal and interest payments of the bonds payable. This restriction is imposed by the bondholders through debt covenants.

- *Restricted for Construction* – This component of net position consists of restricted assets for the specific purpose of paying for construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

- *Unrestricted* – This component consists of net position that does not meet the definition of net investment in capital assets or restricted for debt service or for construction.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses and changes in net position includes operating revenues, which consist of toll, train fares, concession service, and other, and operating expenses, such as costs of operating toll roads, the mass transportation system, administrative expenses, and depreciation on capital assets; and "non-operating" revenue and expenses, such as gasoline, diesel, oil and petroleum taxes, cigarette taxes, vehicle license fee, interest and investment income, and interest expense. The statement also includes capital contributions and transfer in from Commonwealth of Puerto Rico. The focus of the statement of revenues, expenses, and changes in net position is the change in net position. This is similar to net income or loss, and portrays the results of operations of the Authority for the entire operating period.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used by operating activities, noncapital financing activities, capital and related financing activities and from investing activities. This statement also portrays the financial health of the Authority in that current cash flows are sufficient to pay current liabilities.

Notes to Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, bonds payable, long-term liabilities, retirement plans, derivative financial instruments, and the commitments and contingencies. The reader is encouraged to review the notes in conjunction with the management discussion and analysis and the financial statements.

Financial Analysis of the Authority

Statement of Net Position

The following table reflects a condensed summary of assets, liabilities, and net position of the Authority as of June 30, 2015 and 2014:

	June 30	
	2015	**2014**
Assets		
Current assets	**$ 43,739,808**	$ 64,827,245
Restricted assets	**665,052,678**	800,398,494
Capital assets, net	**10,424,915,157**	10,736,750,635
Highways and bridge under concession agreement, net	**177,297,738**	173,108,039
Other non-current asset	**1,179,136**	2,310,955
Total assets	**11,312,184,517**	11,777,395,368
Deferred outflow of resources	**116,947,256**	132,041,554
Total assets and deferred outflow of resources	**$ 11,429,131,773**	$ 11,909,436,922
Liabilities		
Current liabilities	**$ 2,651,835,108**	$ 791,283,398
Long-term liabilities, net	**4,636,927,990**	7,001,470,957
Total liabilities	**7,288,763,098**	7,792,754,355
Deferred inflows of resources	**1,113,928,786**	1,139,212,885
Net position		
Net investment in capital assets	**3,019,515,603**	2,815,239,367
Restricted for debt service	**199,895,560**	443,377,239
Restricted for construction	**28,816,942**	26,824,139
Unrestricted	**(221,788,216)**	(307,971,063)
Total net position	**3,026,439,889**	2,977,469,682
Total liabilities, deferred inflow of resources and net position	**$ 11,429,131,773**	$ 11,909,436,922

Current assets decreased by approximately 32.5 % to $43.7 million in 2015 and increased by approximately 9.2% to $64.8 million in 2014.

For fiscal year 2015, the change in current assets of $21.1 million was due to a decrease by $19.4 million in cash and cash equivalents related with the use of funds in certificated deposits of $12.5 million for operating expenses and an impairment loss on deposits of $6.8 million with Government Development Bank (GDB) due to the existence of substantial doubt about GDB's ability to continue as a going concern. For fiscal year 2014, the change in current assets of $5.4 million due to an increase by $9.2 million in cash and cash equivalents related with cash in excess received from investment reserve accounts and less disbursements realized due to less active construction projects, offset by a decrease of $5.4 million in the accounts receivable.

The restricted assets decreased by 17.0 % to $665.1 million in 2015 and increased by 8.06% to $800.4 million in 2014.

For fiscal year 2015, the Authority's cash and cash equivalents and investments with trustee decreased by approximately $163.4 million related with the decrease of the Bond Anticipation Notes reserve of $70.4 million, an impairment loss on deposits of $54.6 million with Government Development Bank (GDB) due to the existence of substantial doubt about GDB's ability to continue as a going concern, decrease in cash maintained by the Department of Treasury of $27.7 million, offset by an increase in accounts receivable by approximately $27.3 million from Puerto Rico Department of Treasury. For fiscal year 2014, the Authority's cash and cash equivalents and investments with trustee increased by approximately $44.1 million related to the new Bond Anticipation Notes reserve of $52.9 million and an increase in accounts receivable by approximately $32.4 million from Puerto Rico Department of Treasury, offset by a decrease of SWAP reserve cancellation by $41.5 million.

For fiscal year 2015, capital assets decreased by 2.9% to 10,424.9 million mainly due to an increase of $106.9 million in roads, bridges and equipment, offset by a net increase in construction in progress of $23.8 million and an increase in accumulated depreciation of approximately of $448.6 million. For fiscal year 2014, capital assets decreased by 2.3% to $10,736.7 million due to the increase of $336.3 million in roads, bridges and equipment, offset by a net decrease in construction in progress of $158.8 million and an increase in accumulated depreciation of approximately of $444.4 million. Total capital contributions from FHWA during fiscal years 2015 and 2014 used to fund capital assets amounted to $139.4 million and $137.1 million, respectively.

For fiscal year 2015, highways and bridge under service concession agreement increased by 2.4% to $177.3 million mainly due to the recognition of $5.8 million in capital improvements made to the Toll Roads PR-5 and PR-22, offset by an increase in accumulated depreciation of the Teodoro Moscoso Bridge (the Bridge) by $1.6 million. For fiscal year 2014, highways and bridge under service concession agreement increased by 1.8% to $173.1 million mainly due to the recognition of $4.8 million in capital improvements made to the Toll Roads PR-5 and PR-22, offset by an increase in accumulated depreciation of the Bridge by $1.8 million.

For fiscal year 2015, the other non-current decreased by 48.9% due to the correction of the GASB No. 45 accounting to eliminate the Act No. 70 benefits.

For fiscal year 2014, other non-current assets decreased by 100% due to the adoption of the GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* resulting in a decrease in bonds issuance costs by $77.7 million. As a result of the implementation of GASB No. 65, all debt issuance costs have to be presented as expense during the year they are incurred.

For fiscal year 2015, the deferred outflows of resources decreased by 11.4 % to $116.9 million due to a decrease of $15.1 million of the deferred unamortized loss on advance refundings. For fiscal year 2014, the deferred outflows of resources decreased by 16.1% to $132.1 million due to the net effect of the decrease by $10.6 million related with cancellation of all its outstanding swap agreements and the reclassification of the deferred unamortized loss on advance refunding of $132.1 million related with the implementation of the GASB No. 65, *Items Previously Reported as Assets and Liabilities. The deferred unamortized loss on advance refunding was presently as part of bond payable.*

For the years ended June 30, 2015 and 2014, the current liabilities increased by 235.2% to $2,651.8 million and increased by 25.4% to $791.2 million, respectively. For fiscal year 2015, the increase was mainly due to the increase of $1,812.9 million of line of credit due to the reclassification from non-current to current liabilities caused by its maturity date before June 30, 2016; and reclassification from long term to current liabilities of $110.3 million of bonds payable that defaulted because of lack of payment subsequent to year end as disclosed in Note 22; increase of $78.8 million of interest payable; increase of $21.8 million of current portion of bonds payable and an increase of $17.4 million in accrued legal claims offset by a decrease of $150.0 million of current portion of bonds anticipation notes related with the payment of principal balance as per maturity date and a decrease of $15.9 million of accounts payable and accounts and subcontractors' payable. For fiscal year 2014, the increase was mainly due to the increase of $150.0 million of current portion of bonds anticipation notes; increase of $43.1 million of interest payable offset by a decrease of $12.2 million in current portion of bonds payable, offset by a net decrease of $20.6

million of accounts payable and accounts and subcontractors' payable, a decrease of $10.9 million in accrued legal claims, and a decrease of $10.3 million in checks issued over bank balance.

For fiscal year 2015, net non-current liabilities decreased by 33.8% to $4,636.9 million mainly due net effect of the reclassification to current liabilities of the line of credit balance of $1,813.9 million due to the reclassification from non-current to current liabilities caused by its maturity date before June 30, 2016, and reclassification from long term to current liabilities of $110.3 million of bonds payable that defaulted because of lack of payment subsequent to year end as disclosed in Note 22, a decrease of $250.0 million of non-current liabilities of bonds anticipation notes, a net decrease of $129.9 million of bonds payable offset and a decrease of $71.4 million of accrued legal claims. For fiscal year 2014, net non-current liabilities decreased by 1.95% to $7,001.4 million due to the net effect of an increase of the bonds anticipation notes of $250.0 million; increase of legal reserve of $98.8 million related with property expropriations, offset by a decrease of line of credits outstanding balance of $231.2 million; decrease of $8.9 million of voluntary termination incentive plan liability; a decrease of fair value of derivative instruments of $142.4 million, and a decrease in bonds payable of $101.2 million.

For fiscal year 2015, the deferred inflows of resources decreased by 2.2% to $1,113.9 million due to the net effect the recognition of $5.8 million in capital improvements made to the Toll Roads PR-5 and PR-22 offset by the current amortization of $31.0 million of the unearned service concession agreement revenue of the toll roads concession. For fiscal year 2014, the deferred inflows of resources decreased by 2.3% to $1,139.3 million due to the net effect of the recognition of $4.8 million in capital improvements made to the Toll Roads PR-5 and PR-22, offset by the current year amortization of $31.3 million of the unearned service concession agreement revenue of the toll roads concession.

For fiscal year 2015, the net position increased by 1.64% to $3,026.4 million due to less operating expenses incurred and an increase in transfers and capital grants. For fiscal year 2014, decreased by 6.0% to $2,977.4 million, mainly due to a reduction in the amounts invested in capital assets and unrestricted net position.

Condensed Statements of Revenues, Expenses and Changes in Net Position

The following table reflects a condensed summary of the revenues, expenses, and changes in net position for the years ended on June 30, 2015 and 2014.

	June 30	
	2015	**2014**
Total operating revenues	**$ 232,818,634**	$ 213,726,887
Total operating expenses	**228,647,008**	391,483,897
Depreciation and amortization	**448,687,832**	448,020,609
Operating loss	**(444,516,206)**	(625,777,619)
Non-operating revenues	**554,241,337**	531,876,833
Non-operating expenses	**(419,409,538)**	(324,715,512)
Loss before capital contribution and other transfers	**(309,684,407)**	(418,616,298)
Transfers and Capital contributions	**358,654,614**	228,397,671
Change in net position	**48,970,207**	(190,218,627)
Net position at beginning of year	**2,977,469,682**	3,167,688,309
Net position at end of year	**$ 3,026,439,889**	$ 2,977,469,682

Operating revenues, which consisted of toll fares, train fares, concession service and other revenues increased by 8.9 % to $232.8 million and increased by 16% to $213.7 million in 2015 and 2014, respectively. During fiscal year 2015, increase was mainly due to the net effect of an increase of $2.9 million of toll fares revenues, an increase of $2.6 million of train fares, and an increase of $11.3 million in toll fines. During fiscal year 2014, the increase was due to the net effect of an increase of $1.7 million of toll fares revenues related with the express lane from Bayamón-Dorado in PR-22 and an increase of $10.6 million in toll fines revenues offset by a decrease in bad debt recovery by $14.4 million. During fiscal year 2014, the increase was due to the net effect of an increase of $1.7 million of toll fares revenues related with the express lane from Bayamón-Dorado in PR-22 and an increase of $10.6 million in toll fines revenues offset by a decrease in bad debt recovery by $14.4 million.

On December 1, 2015, the Commonwealth announced that it will have to claw back revenues pledged to certain public corporations and agencies, including the Authority. These revenues are to be used for other essential services within the Commonwealth of Puerto Rico. The Authority has seen the effect of this claw back on its revenues for fiscal year 2016. The Authority has not collected $273.3 million as of June 30, 2016. The effective date of the claw back ends on April 30, 2017 or July 1, 2021.

Operating expenses decreased by 41.9% to $228.6 million in 2015 and decreased by 24.5% to $391.5 million in 2014. For 2015, the decrease of $162.8 million in operating expenses is the net effect of an impairment loss in capital assets by $110.6 recorded in fiscal year 2014, a decrease of highway maintenance by $25.7 million, a decrease of $7.7 million of other finance charges; a decrease in salaries and related benefits of $1.5 million, a decrease of train operating and maintenance by $4.9 million and offset by an increase of integrated transportation system by $7.8 million. For 2014, the increase of $77.1 million in operating expenses is the net effect of more expenses related with the recognition of the impairment in capital projects by $77.8 million and an increase of toll highways administration and maintenance by $4.5 million, offset by a decrease of the voluntary termination incentive plan expense by $13.4 million, a decrease in salaries and related benefits of $4.9 million and a decrease of utilities expense by $3.4 million.

Non-operating revenues, which consist principally of gasoline, oil, diesel and petroleum taxes, cigarettes tax and vehicle license fees allocated by the Commonwealth of Puerto Rico to the Authority increased by 7.0% to $554.2 million and $40.0 million of legal reserve adjustment. In fiscal year 2014, increased by 81.8% to $531.8 million.

On January 15, 2015, the Act No.1, as amended, was created by the Commonwealth of Puerto Rico to increase the petroleum tax revenues from $9.25 to $15.50 per petroleum barrel, starting on March 15, 2015. The new tax rate of the petroleum products tax was distributed as follows: $6.00 per barrel to the Authority; and $9.50 per barrel to the Puerto Rico Infrastructure Finance Authority (PRIFA). The $9.50 per barrel will be used to provide funds for the debt service of the proceeds of a new bond issuance by PRIFA which will be used to pay the twenty-four lines of credit with GDB, the $200 million Variable Rate Bonds and the Bonds Anticipation Notes. The Authority does not currently contemplate that the conditions for the completion of such transfer will be satisfied in the foreseeable future.

During fiscal year 2015, decrease was mainly due to a decrease of $12.5 million in gasoline, diesel, oil and petroleum tax as consequence of the petroleum tax rate increase applicable to the Authority. In fiscal year 2014, the increase was due to an increase of $162.3 million in gasoline, diesel, oil and petroleum tax; an increase of $20.0 million in cigarettes taxes; and an increase of $58.1 in

vehicle license fee as consequence of the tax rate increase from $3.00 to $9.25 per barrel and a new annual transfer of $20 million from the excise tax on the consumption of cigarettes approved by the Act. No. 31, on June 25, 2013, and the transfer to the Authority of all motor vehicle license fees collected by the Department of the Treasury approved by Act No. 30 on June 25, 2013.

Non-operating expenses, which consist principally of interest expense on bonds and lines of credit, impairment of loss on deposits with GDB, investment income and the change of fair value upon hedge termination increased by 29.16% to $419.4 million, and, by 10.3% to $324.7 million in 2014. For 2015, the increase was mainly due to net effect of the additional provision for reserves needed on deposits of $61.5 million with Government Development Bank (GDB) due to the existence of substantial doubt about GDB's ability to continue as a going concern, the recurring hedge termination recorded in 2014 and not in 2015 of $17.4 million, a decrease in interest income of $6.2 million and an increase in the interest expense on bonds and lines of credit of $9.5 million. For 2014, the increase was due to a decrease in fair value upon hedge termination of $48.1 million; a decrease on investment income by $23.1 million and a decrease in interest expense on bond and line of credit of $40.8 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015 and 2014, the Authority had approximately $10.424.9 million and $10,736.8 million, respectively, in capital assets (net of related depreciation) including roads, bridges, transportation equipment, buildings, land and equipment and construction in progress.

At the end of fiscal year 2005, the Authority started operating the mass rail transportation system for the San Juan metropolitan area known as "Tren Urbano". The Authority incurred approximately $2.42 billion in costs, of which $685.7 million was paid with federal funds. The Tren Urbano in San Juan consists of approximately 17km. of track running from Bayamón to Santurce. Maintenance services are partially funded with capital contributions from the Federal Transit Administration (FTA). Total capital contributions received from FTA used for maintenance services amounted to $34.0 million during the fiscal year 2015 and $42.7 million during the fiscal year 2014.

On August 3, 2014, the Governor of the Commonwealth of Puerto Rico signed the Law No. 123-2014 to create the Integrated Transportation Authority of Puerto Rico (ATI) to establish their purposes, duties, powers and authorities and to authorize the Authority to transfer the Urban Train System during the fiscal year 2016. According to this Act, ATI will be in charge of the

Metropolitan Bus Authority and the Authority of Maritime Transportation. The Authority does not currently contemplate that conditions for the completion of such transfer will be satisfied in the foreseeable future.

On September 22, 2011, the Authority entered into a toll road concession and lease agreement with a private company named "Autopistas Metropolitanas de Puerto Rico, LLC" (the Concessionaire), in which the Authority granted to the Concessionaire the right to finance, operate and maintain the PR-22 and PR-5 highways (the Concessioned Toll Roads) for a period of 40 years. During the 40-year term, the Concessionaire will have the right to charge and collect the tolls imposed on the Concessioner Toll Roads. The Authority received an upfront concession fee of $1.136 billion, from which approximately $873.1 million was used to redeem and defease bonds issued and outstanding associated with the Leased Toll Roads.

On December 20, 1992, the Authority and Autopistas entered into a service concession agreement (the Concession Agreement), amended in 1992, 2004 and 2009, for the design, construction, operation and maintenance of the Bridge, a toll bridge, which traverses the San José Lagoon between the municipalities of San Juan and Carolina. The Concessionaire designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994.

The initial term of this agreement was 35 years, expiring on April 3, 2027. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044). Under the agreement, the counterparty has the right to assign debt totaling $155.1 million to the Authority if certain minimum toll revenues are not achieved. Although this right is currently executable, we have not received notice of an interest to exercise it. As of June 30, 2013, the Authority recognized the Bridge at fair value, equivalent to what the Authority might have paid to have the Bridge constructed (replacement cost) at the valuation date. The replacement cost was determined to be $109.5 million depreciated over an estimated useful life of 50 years and a deferred inflows of resources of $109.5 million that will be amortized and recognized as revenue over the term of the agreement (50 years). The asset balance related to the Bridge was adjusted to recognize the first 17 years of operation and the remaining amortization will be amortized by 33 years. Refer to Note 8.

The Authority entered into a System and Test Track Turnkey Contract (STTT Contract) with Siemens Transportation Partnership Puerto Rico, S.E., Juan R. Requena y Asociados, and Alternate Concepts, Inc. (all together known as "Siemens") for the purpose of operating and maintaining the Tren Urbano. The Authority extended the original five-year contract for the operation and maintenance of the Tren Urbano with a private company, for five (5) additional years ending on June 5, 2015. On June 5, 2015, the Authority extended the contract for the

operation and maintenance of the Urban Train for one (1) additional year ending on June 6, 2016. Under this agreement, the private company is responsible for operating and maintaining Tren Urbano, and is entitled to receive for such services an annual base total amounts compensation, subject to inflation adjustment for changes in cost of labor and materials. The base compensation does not include the costs of insurance and electricity, which are paid by the Authority.

Effective July 1, 2015, the electronic toll system is administered by a new operator with a new contract for five years ending on July 1, 2019. This agreement decreased the toll operation expense by $10 million per year.

Debt Administration

As of June 30, 2015 and 2014, the principal amount of the Highways and Senior Transportation, and Grant Anticipation Revenues Bonds outstanding, net of unamortized discounts which approximated $4,658.1 million and $4,766.3 million, respectively, were insured and rated Ca by Moody's Investors Service (Moody's), and CCC- by Standard & Poor's (S&P) for the other bonds. The remaining uninsured bonds are rated Ca by Moody's and CCC- by S&P.

The Authority's bond sales must be approved by the Board of Directors that is composed by seven members. The Authority must comply with certain rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission relating to such sales.

In connection with the issuance of the CPI and LIBOR Bonds, the Authority entered into interest-rate swap agreements. In general, the swap agreements provided that, subject to the terms thereof, the Authority would pay to the swap provider a fixed rate and the swap provider will pay the Authority a floating rate based on the CPI or LIBOR Rate, based on a notional amount equal to the principal amount of the CPI and LIBOR Bonds outstanding. The purpose of the swap agreement was generally to convert the Authority's floating rate obligations with respect to the CPI and LIBOR Bonds to fixed rate obligations. Between February 19 and February 25, 2014, the Authority terminated all its outstanding swap agreements for a total termination payment of $112.0 million.

On March 16, 2015, the Authority and the Puerto Rico Infrastructure Financing Authority (PRIFA) signed a trust agreement to create Dedicated Tax Fund Revenue Bond Anticipation Notes (PRIFA BANs) to repay the Bonds Anticipation Notes outstanding balance of $227.6 million and the associated fees of issuance relating to the PRIFA BANs. These notes will be secured either by payments made by the Authority and or by certain petroleum and vehicle license revenues. This

transaction resulted in a transfer in from the Commonwealth of Puerto Rico of $222.6 million for the year ended June 30, 2015. This transfer was recorded in the accompanying statement of Revenues, Expenses and Change in Net Assets.

The Authority's $1.8 billion outstanding lines of credit with the Government Development Bank are in default, as a result of lack of payment on lines of credit which expired on various dates between August 1, 2015 and January 31, 2016. As disclosed in Note 22 subsequent year end, the Authority defaulted on certain principal and interest payments due on Bonds Payable. Refer to Note 22 for further details.

Currently Known Facts

ECONOMIC FACTORS AND FISCAL YEAR 2016 BUDGET

Interrelation between the Puerto Rican and U.S. Economies

The economy of Puerto Rico must be analyzed as a region of the United States (U.S.) economy, since it is part of the U.S. monetary and banking system and it is located within its customs and territorial boundaries. The main driver of the Puerto Rican economy is a huge external sector closely tied to the flow of merchandise, tourists, and capital between the United States and Puerto Rico. Thus, historically, real growth rates of the Puerto Rican economy have been impacted by the U.S. economic performance, although in periods of energy crisis, the rise in oil prices has exerted a more significant negative effect on the level of economic activity in Puerto Rico than in the United States.

Behavior of the U.S. Economy during and after the Great Recession

According to the National Bureau of Economic Research (NBER), the U.S. economy entered into a recessionary period in December 2007, which turned into a deep recession in the third quarter of 2008, concurrently with a U.S. and global financial and housing market crises. The 2007-2010 U.S. recession was been the longest and deepest since the Great Depression of the thirties. In FY2009, U.S. Real Gross National Product (GNP) dropped by 2.86%, suffering a loss of 3.8 million payroll workers and a rise in the unemployment rate to an annual average of 7.6%. Although the NBER declared that the Great Recession was officially over in June 2009, the U.S. economy posted a meager increase of 0.41% in real GNP in FY2010, experiencing an additional loss of 4.2 million payroll workers, while the unemployment rate climbed to an annual average of 9.76%. Thus, in a short span of two fiscal years, payroll employment declined from 138.2 million payroll workers in FY2008 to 130.2 million payroll workers in FY2010, a significant 8.0 million

job losses. After FY2010, the U.S economy started to expand at a moderate pace as compared to previous recoveries, when real GNP advanced by 2.41% in FY2011. The recovery lost steam in FY2012 and FY2013, when U.S. real GNP growth rate dropped to 2.18% and 1.35. Then, in FY2014 the economy slightly improved, posting a 2.15% growth rate in real GNP. In spite of the U.S. moderate recovery during the period of fiscal years 2011 to 2014, the U.S. economy recovered 7.4 million jobs, almost offsetting payroll jobs losses during FY2009 and FY2010, and the unemployment rate dropped to an annual average of 6.77% in FY2014.

Finally, in FY2015 the U.S. economy advanced at the highest rate of the recovery period after FY2010, when real GNP increased by 2.76%; payroll jobs rose by 2.8 million to reach 140.4 million jobs, thus surpassing the FY2008 pre-recession level of 138.2 million; and the unemployment rate further dropped to an annual average of 5.70%. According to the latest IHS Global Insight's forecast, U.S. real GNP will increase at a 1.53% rate in FY2016 and will continue to expand at an average annual rate of 2.40% during the rest of the present decade.

Impact of the Great Recession and the Energy Crisis on the Puerto Rican Economy: Fiscal Years 2006 to 2014

The Great Recession, coupled with extremely high petroleum products prices, exerted a more severe negative impact on the Puerto Rican economy than on the U.S. economy. First, the recession in Puerto Rico started earlier, with a meager growth rate of 0.49% in real GNP during FY2006. Then, real GNP dropped by 1.21% in FY2007, followed by steep declines of 3.83% and 3.57% in FY2009 and FY2010. In fiscal years 2011 and 2012, the Puerto Rican economy experienced a relative improvement, when real GNP experienced a lower decline of 1.68% in FY2011, and a positive but minor advance of 0.54% in FY2012. However, recessionary conditions in Puerto Rico remained in place during FY2013, when the U.S. economic growth faltered, mainly due to a contraction in federal and state government spending, while the energy crisis intensified. Then, the economic situation in Puerto Rico again worsened in FY2014. Real GNP declined by 1.70%; the GDB Index of Economic Activity contracted by 3.0% in FY2014; while payroll employment dropped by 1.3%; clear signs that the recession was still affecting the Puerto Rican economy in FY2014.

The energy crisis was ignited again in fiscal year 2011, when the U.S. average refiners' acquisition cost of crude oil increased by 23.0% and the average retail price of gasoline in Puerto Rico rose by 18.7%, advancing from $2.55 to $3.03 per ambient gallon. The energy crisis continued in fiscal years 2012 to 2014. The average gasoline price rose to $3.54 per gallon in FY2014, the highest level in the last ten years. Fortunately, since October 2014, the price of oil in international markets has experienced a significant downward trend. According to IHS Global Insight, the average

acquisition cost of crude oil purchased by U.S. refineries dropped from $100.01 per barrel in FY2014 to $68.89 per barrel in FY2015. As a consequence of the steep drop in oil prices, the average price per ambient gallon of gasoline in Puerto Rico dropped from $3.54 in FY2014 to $2.92 in FY2015, marking the end of the deep energy crisis which affected the Puerto Rican economy in the period of fiscal years 2011 to 2014.

Fiscal Year 2015: Main Economic Indicators of the Puerto Rican Economy

Recessionary conditions continued to prevail in the Puerto Rican economy in FY2015, although the real GNP decline of 0.55% in FY2015 was quite smaller than the contraction of 1.71% in FY2014. However, as compared to real GNP, the Index of Economic Activity computed by the Government Development Bank showed a greater decline in Puerto Rico economic activity in FY2015, falling from 128.7 in FY2014 to 126.4 in FY2015, posting a -1.8% decline. The persistent decline in the population of Puerto Rico since FY2005 has been another critical factor that has negatively affected real levels of consumption and investment in Puerto Rico. In the decade from FY2005 to FY2015, the population of Puerto Rico declined by about -347,000 inhabitants, contracting at an average annual rate of 34,700 inhabitants. The population decline has intensified in recent years, reaching -61,000 inhabitants in FY2015. Housing construction has plummeted as a consequence of the severe population decline in the last decade. New permits for housing construction dropped to a meager level of 2,047 permits in FY2015, which only represented 11.4% of the average annual number of housing permits approved in fiscal years 2005 and 2006 (17,887 housing permits). As a consequence of the crisis affecting the construction sector, cement consumption dropped from 15.2 million bags in FY2014 to 13.8 million bags in FY2015, the lowest level in more than 40 years and 31.7% of the annual average of cement consumption in fiscal years 2005 and 2006 (43.6 million bags).

The behavior of other economic indicators confirms the weak macroeconomic environment prevailing in FY2015. Payroll employment dropped by -1.3%, from 917.2 thousand in FY2014 to 905.6 thousand in FY2015, for a loss of 11,600 jobs, while the Household Survey recorded a loss of -9,000 jobs in FY2015, equivalent to -0.9%. Retail sales of automobiles and light trucks, after experiencing a process of recovery during fiscal years 2010 to 2013, declined by -5,035 vehicles or -5.0% in fiscal year 2014, dropping from 101,675 units in FY2013 to 96,640 units in FY2014. This contraction in the sale of automobiles and light trucks was followed by a greater decline in FY2015, when total sales of automobiles and light trucks dropped to 83,150 vehicles, a decline of -13,490 vehicles or -13.96% over FY2014.

Behavior of Authority's Recurrent Revenues in FY2015

Gasoline Tax Revenues

Gasoline tax revenues amounted to $157.11 million in FY2015, registering a small increase of $1.09 million over FY2014 ($156.02 million), equivalent to 0.7%. However, we must recognize that gasoline tax revenues in FY2014 were negatively affected, in an amount of -$2.29 million, by the change of a major gasoline wholesaler to a bonded taxpayer in January 2014. This change resulted in a one-month delay in the payment of the gasoline tax, resulting in payments of the tax on gasoline sales during a period of only eleven months in FY2014. If we adjust for this one-time institutional factor, which reduced the taxable base of the gasoline tax of one major gasoline wholesaler, gasoline tax revenues should have reached $158.31 million in FY2014. Thus, if we take into consideration the institutional factor which negatively affected gasoline tax revenues in FY2014, gasoline tax revenues in FY2015 posted a small decline of -$1.20 million, instead of a small increase of $1.09 million.

The negative impact on gasoline consumption of a weak economic environment and a significant population decline in FY2015, were largely offset by the positive effect of a substantial fall in gasoline prices, which avoided a major decrease in gasoline tax revenues. As previously stated, the average price per ambient gallon of gasoline fell from $3.54 per gallon in FY2014 to $2.92 per gallon in FY2015, a substantial drop of -62 cents per gallon, or -17.6%, as a consequence of the steep drop experienced by oil prices in international markets during FY2015.

After evaluating the interaction of positive and negative factors on gasoline consumption, the main conclusion stemming from the above analysis is that gasoline tax revenues remained basically stable in FY2014 and FY 2015.

Petroleum Products Tax

Fiscal Year 2014: First Increase in the Tax Rate of the Petroleum Products Tax

In order to analyze the behavior of revenues from the petroleum products tax in FY2015, first we must review the previous impact of a significant increase in its tax rate from $3.00 to $9.25 per barrel at a temperature of 60 degrees Fahrenheit, which became effective at the beginning of fiscal year 2014, on July 1, 2013. The increase of $6.25 per barrel at a temperature of 60 degrees Fahrenheit, equivalent to a tax rate of 14.88 cents per gallon or 3.93 cents per liter, was established by Act No. 31, approved on June 25, 2013. As a result of this tax rate increase, revenues of the

petroleum products tax rose significantly in FY2014, although the new tax rate was not fully applied to the consumption of petroleum products in the first quarter of FY 2014.

The increase in the tax rate of the petroleum products tax became effective on July 1, 2013, but in the month of July 2013 bonded taxpayers paid taxes due from the petroleum products imports that took place in June 2013, the last month of FY2013, which were taxable at the previous tax rate of $3.00 per barrel measured at 60 degrees Fahrenheit. In addition, the collection of the new tax rate of $9.25 per barrel on petroleum products consumption was suspended by the Secretary of the Treasury during the period of 9 to 31st of August 2013. Thus, in the first quarter of FY2014 (July-September 2013), the average tax rate of the petroleum products tax amounted to $7.1159 per barrel, instead of $9.25 per barrel, generating total revenues of $52.47 million. In the other three quarters of FY2014, the $9.25 per barrel tax rate of the petroleum products tax was applied to a taxable base of 21,958,977 barrels, yielding revenues amounting to $203.12 million. For the whole of FY2014, revenues from the petroleum products tax amounted to $255.59 million ($52.47 + $203.12 = $255.59 million), based on an average tax rate of $8.7141 per barrel applied to a taxable base of 29.33 million barrels. As a consequence of the significant increase in the tax rate of the petroleum products tax, revenues from this tax in FY2014 posted an increase of $166.19 million over FY2013 ($89.40 million), although the actual taxable base of the petroleum products tax on FY2014 was -1.6% lower than its taxable base in FY2013 (29.80 million barrels). This relative good performance of the taxable base of the petroleum products tax in FY2014, in spite of a significant increase in the tax rate and a prevailing negative economic environment, except for the decline in gasoline prices, demonstrates the resilience of the tax base of this tax when faced with economic and structural negative factors.

Second Increase in the Petroleum Products Tax Rate and Revenues Received from this Tax by the Authority in FY2015

Act No. 1, approved on January 15, 2015, as amended by Act No. 29, approved March 13, 2015 ("Act 29"), increase the petroleum products tax rate from $9.25 to $15.50 per barrel at a temperature of 60 degrees Fahrenheit. This $6.25 per barrel increase in the tax rate of the petroleum products tax, which did not apply to diesel oil, was totally assigned to the Puerto Rico Infrastructure Authority (PRIFA) to support future debt service payments of PRIFA's bond issues. Act 29 authorized PRIFA to issue bonds up to $2,950 million, in order to pay the Authority's debt stemming from lines of credit granted by the Government Development Bank, which amounted to a total of $2,079.4 million at the end of March 2015, composed of $1,813.0 million of the principal amount and $266.4 million of interest; and from an additional debt of $227.67 million of Bond Anticipation Notes (BANs). According to Act 29, in the "Effective Date of the Transfer" another $3.25 per barrel of the tax rate on petroleum products will be assigned to PRIFA to provide funds

to pay the debt service of the bonds that will be issue to pay the outstanding debt of the BANs and the debt of the lines of credit granted to the Authority by the Government Development Bank. Thus, in the "Effective Date of the Transfer" the tax rate on the petroleum products tax assigned to the Authority will be reduced from $9.25 to $6.00 per barrel at 60 degrees temperature, while the tax rate on petroleum products assigned to PRIFA will increase to $9.50 per barrel ($6.25 + $3.25 per barrel), of which $6.25 per barrel will continue to be inapplicable to the consumption of diesel oil. The *quid pro quo* to the Authority from the reduction in the tax rate on petroleum products from $9.25 to $6.00 per barrel at a temperature of 60 degrees Fahrenheit will consist in the total elimination of its debt with the Government Development Bank and with holders of the BANs. However, the dire condition prevailing for the access of the Commonwealth Government and public corporations of Puerto Rico to the Municipal Bond Market since April 2014, has thwarted all efforts of PRIFA to issue the bonds contemplated in Act 29 to pay the Authority's debt with the GDB and with holders of the BANs. For this reason the "Effective Date of the Transfer" did not occur in FY2015, and the $9.25 tax rate on petroleum products continued to prevail from March 15 to June 30, 2015. Consequently, in all months of FY2015, the Authority received the $9.25 tax rate from the petroleum products tax. In summary, although Act 29 increased the tax rate on the consumption of petroleum products by $6.25 per barrel at a temperature of 60 degrees, with the exemption of the consumption of diesel oil, the $6.25 per barrel tax increase was assigned to PRIFA, while the Authority continued to receive the $9.25 per barrel tax rate on the consumption of petroleum products, that was receiving since July 1, 2013, by the mandate of Act No. 31, approved on June 25, 2013.

Revenues assigned to the Authority from the tax on petroleum products consumption amounted to $269.75 million in FY2015, which were generated by applying the tax rate of $9.25 per barrel to a taxable base of 29.16 million barrels measured at a temperature of 60 degrees Fahrenheit. These revenues from the petroleum products tax in FY2015 ($269.75 million) surpassed by $14.06 million the amount of revenues collected in FY2014 ($255.69 million) equivalent to 5.5% increase. This increase in the revenues of the petroleum products tax was caused by the fact previously analyzed that the average tax rate of the petroleum products tax in FY2014 was only $7.1179 per barrel in the first quarter, and averaged $8.7141 per barrel in the 12 months of that fiscal year. In conclusion, in spite of a small contraction in the tax base of the petroleum products tax, from 29.33 million barrels in FY2014 to 29.16 million barrels in FY2015, revenues of this tax rose by $14.06 million in FY2015, due to the increase in its average tax rate from $8.7141 per barrel in FY2014 to $9.25 per barrel in FY2015.

Revenues from Toll Plazas

Revenues from toll plazas in fiscal years 2014 and 2015 exclude revenues from Expressways PR-22 and PR-5, which were transferred to Metropistas in September 2011 as a result of a Public-Private Alliance (APP) agreement. Toll receipts from the 17 Plazas operated by the Authority in Toll Expressways PR-52, PR-53, PR-20 and PR-66, amounted to $129.56 million in FY2015. This figure exceeded by a small amount of $2.52 million, or 2.0%, the total amount of such toll receipts in FY2014 ($127.04 million). In addition to revenues collected in those 17 toll plazas, in FY2015 the Authority received $2.18 million from the express lane from Bayamón to Dorado in the PR-22 operated by Metropistas, and $1.65 million from revenues collected in the toll plaza of the Teodoro Moscoso Bridge. Thus, total toll-related revenues of the Authority amounted to $133.39 million in FY2015, surpassing by $3.99 million and 3.1% the amount of toll-related revenues received in FY2014 ($129.40 million).

Vehicle License Fees

Revenues from the $15.00 fee per each motor vehicle license that are transferred to the Authority amounted to $32.25 million in FY2015, compared to a similar amount of $32.57 million in FY2014. Thus, revenues received by the Authority from vehicle license fees continued to remain at a stable level in FY2015, between $32 and $33 million.

Diesel Oil Tax

Revenues from the diesel oil tax are a minor source of Authority's revenues, which amounted to $10.17 million in FY2015, posting an increase of $1.05 million over FY2014 ($9.12 million), which should be mostly related to a more intensive use of Fuel #2 by the Electric Power Authority.

New Sources of Revenues Provided by Acts No. 30 and No. 31, approved on June 25, 2013

In addition to the increase in the tax rate of the petroleum products tax, legislation approved in June 2013 provided two new sources of income to the Authority. Act No. 31, approved on June 25, 2013, established an annual transfer of $20 million to the Authority from the excise tax on the consumption of cigarettes, which are first channeled to the General Fund of the Commonwealth Government. The amount of funds transferred to the Authority in fiscal years 2014 and 2015 from the General Fund's revenues of the cigarette tax was very close to the $20 million provided by Act No. 31 of 2013.

Act No. 30 of 2013, also transferred to the Authority the amount of motor vehicle fees previously deposited in the General Fund of the Commonwealth Government. In fiscal year 2015, the transfer of General Fund Motor Vehicle Fees to the Authority amounted to $57.33 million, a level somewhat below ($0.92 million) the transfers of Motor Vehicle License Fees Revenues in FY2014 ($58.25 million).

Total Recurrent Revenues

In summary, total recurrent revenues of the Authority amounted to $679.99 million in FY2015, recording an increase of $19.17 million, equivalent to 2.90% over the revenues collected in FY2014 ($660.72 million). This increase was mainly caused by a $14.16 million rise in petroleum products tax revenues and a $4.0 million increase in toll receipts, as previously explained. The following table summarizes the behavior of Authority's recurrent revenues in fiscal years 2014 and 2015.

Revenues	FY 2014 (Million $)	FY 2015 (Million $)	Absolute Change Million $	Percent Change
Gasoline Tax	156.02	157.11	+1.09	+0.70%
Diesel Tax	9.12	10.17	+1.05	+11.51%
Petroleum Products Tax	255.59	269.75	+14.16	+5.54%
Vehicle License Fee	32.57	32.25	–0.32	-0.98%
Toll Revenues (a)	129.39	133.39	+4.00	+3.09%
Transfer of Cigarette Tax Revenues	19.78	19.99	+0.21	+1.06%
Transfer of General Fund License Fee Revenues	58.25	57.33	–0.92	-1.58%
Total	660.72	679.99	+19.27	+2.92%

(a) This total includes revenues received by ACT from the Bayamón-Dorado Express Lane of PR-22 ($1.68 million), and the transfer of certain amount of toll revenues from the Teodoro Moscoso Bridge.

Outlook for Fiscal Year 2016

First, we must consider the exogenous factors affecting the Puerto Rican economy. The U.S. real GNP will continue to advance, but at a moderate rate of around 2.0%. International oil prices are

expected to experience a significant decline due to an uncontrollable expansion in the supply of oil. This will exert a significant downward pressure on gasoline prices in Puerto Rico, which are expected to fall between -15% and -20%. This fall in gasoline prices will help to avert a significant decline in gasoline consumption caused by a still prevailing negative economic and demographic environment. Interest rates will still remain extremely low, in spite of an upward adjustment in the Federal Funds rate, which the Federal Reserve has been postponing in recent years. In addition to a steep drop in prices of petroleum products, overall inflation is expected to remain at very low levels. In general terms, the performance of external exogenous variables affecting the Puerto Rican economy will follow a positive behavior in FY2016. However, in spite of this favorable projected outcome of external variables, especially the fall in oil and gasoline prices, in FY2016 the Authority will continue to operate within a weak macroeconomic environment and a persistent population decline in Puerto Rico. The problem of complying with the debt service payments of the Commonwealth Government and Public Corporations will become critical by the end of FY2016, but the Commonwealth Government will be able to maintain a policy of deficit financing, without significantly curtailing public expenditures.

Regarding the outlook for the Authority's recurrent revenues, the main positive assumption is that we should not expect that the "Date of the Effective Transfer," established in Act 29, will occur in FY2016, considering the dire conditions of the Municipal Bond Market facing the Puerto Rico Commonwealth Government and its public corporations. Thus, the petroleum products tax rate of $9.25 per barrel at a temperature of 60 degrees Fahrenheit will continue to prevail in FY2016. Considering the stability of all tax rates of the Authority's recurrent revenues, as well as the transfer of certain funds from the Commonwealth Government in FY2016, the significant fall in gasoline prices and the resilience in the consumption of petroleum products will be able to offset to a large degree the negative impact of a weak macroeconomic environment in Puerto Rico. In conclusion, we should expect that total recurrent revenues of the Authority in FY2016 will remain at a level comparable to that of FY 2015.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, patrons, and other interest parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have question or need additional financial information, contact the Puerto Rico Highways and Transportation Authority, Finance Area, P.O. Box 42007, San Juan, Puerto Rico 00940-2007.

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position

June 30, 2015

Assets	
Current assets:	
Cash and cash equivalents	$ 28,093,100
Accounts receivable, net	10,962,630
Prepaid expenses and other assets	4,684,078
Total current assets	43,739,808
Current restricted assets:	
Cash and cash equivalents	3,855,034
Cash and cash equivalents and investments with trustee	573,249,575
Receivables:	
U.S. Federal Government	27,552,873
P.R. Treasury Department	59,797,813
Accrued interest and other	597,383
Total current restricted assets	665,052,678
Non-current assets:	
Capital assets, net	10,424,915,157
Highways and bridge under concession arrangement, net	177,297,738
Other postemployment benefit	1,179,136
Total non-current assets	10,603,392,031
Total assets	11,312,184,517
Deferred outflows of resources	
Deferred loss on advance refunding, net	116,947,256
Total assets and deferred outflow of resources	$ 11,429,131,773

Continued

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Net Position (continued)

June 30, 2015

Liabilities	
Current liabilities:	
Checks issued over bank balance	$ 748,425
Accounts payable	66,294,418
Accrued and other liabilities	9,985,577
Accounts and subcontractors payable	114,583,789
Accrued interest payable	376,542,362
Current portion of bonds payable	232,613,963
Current portion of voluntary termination incentive plan liability	9,240,722
Current portion accrued legal claims	28,846,359
Nonrevolving lines of credit	1,812,979,493
Total current liabilities payable	2,651,835,108
Non-current liabilities:	
Accrued legal claims	133,299,644
Accrued vacations and sick leave	12,145,457
Voluntary termination incentive plan liability	65,944,370
Bonds payable, net	4,425,538,519
Total non-current liabilities	4,636,927,990
Total liabilities	7,288,763,098
Deferred inflows of resources	
Deferred inflow of resources - concession agreements	1,113,928,786
Net position	
Net investment in capital assets	3,019,515,603
Restricted for debt service	199,895,560
Restricted for construction	28,816,942
Unrestricted (Deficit)	(221,788,216)
Total net position	3,026,439,889
Total liabilities, deferred inflow of resources and net position	$11,429,131,773

See accompanying notes.

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2015

Operating revenues:	
Toll and train fares	$ 142,585,133
Other income	46,670,087
Concession service	43,563,414
Total operating revenues	232,818,634
Operating expenses:	
Salaries and related benefits	22,124,693
Post-employment benefits	3,247,383
Toll highways administration and maintenance	48,527,412
Train operating and maintenance costs	53,829,774
Integrated transportation system	18,265,166
Repairs and maintenance of roads and bridges	48,387,786
Utilities	12,550,273
Other	21,714,521
Total operating expenses	228,647,008
Operating income before depreciation and amortization	4,171,626
Depreciation and amortization	448,687,832
Operating loss	(444,516,206)
Non-operating revenues (expenses):	
Gasoline, diesel, oil and petroleum tax revenues	404,310,065
Cigarettes taxes	19,992,000
Vehicle license fee	89,586,032
Other revenues	40,353,240
Interest on bonds and lines of credit	(370,977,155)
Impairment loss on deposits with governmental bank	(61,469,741)
Investment income:	
Interest income	13,037,358
Total non-operating revenues (expenses), net	134,831,799
Loss before capital contributions and other transfers	(309,684,407)
Transfer in from Commonwealth of PR	222,670,000
Capital contributions	135,984,614
Change in net position	48,970,207
Net position at beginning of year	2,977,469,682
Net position at end of year	$ 3,026,439,889

See accompanying notes.

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows

Year Ended June 30, 2015

Operating activities	
Receipts from toll and train fares	$ 142,585,133
Receipts from other sources	91,793,438
Payments to employees and related benefits	(29,350,507)
Payments to suppliers for goods and services	(280,380,366)
Net cash used in operating activities	(75,352,302)
Noncapital financing activities	
Net change in checks issued over bank balance	120,357
Net cash provided by noncapital financing activities	120,357
Capital and related financing activities	
Receipts from government grants	135,255,682
Acquisition and construction of capital assets, net of capitalized interest	(130,281,252)
Receipts from gasoline, petroleum, cigarettes tax and vehicle license fees	526,918,782
Payments of lines of credit	(922,329)
Payment of bonds	(107,600,000)
Payments of bonds anticipation notes (BANS)	(177,330,000)
Interest paid	(295,611,750)
Net cash used in capital and related financing activities	(49,570,867)
Investing activities	
Withdrawals of cash and investments with Trustee	(615,323,838)
Deposits to cash and investments with Trustee	640,601,857
Investment and interest income received	13,015,706
Net cash provided by investing activities	38,293,725
Net decrease in cash and cash equivalents	(86,509,088)
Cash and cash equivalents at beginning of year	118,457,222
Cash and cash equivalents at end of year	$ 31,948,134

Continued

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Statement of Cash Flows (continued)

Year Ended June 30, 2015

Reconciliation to cash and cash equivalents presented in the statements of net assets		
Cash and cash equivalents	$	28,093,100
Cash and cash equivalents - restricted		3,855,034
Total	$	31,948,134
Reconciliation of operating loss to net cash flows used in operating activities		
Operating loss	$	(444,516,206)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation and amortization		448,687,832
Provisions for doubtful accounts - governmental entity		5,572,294
Net change in operating assets and liabilities:		
Accounts receivable		(4,012,357)
Prepaid expenses and other assets		116,043
Accounts payable		(11,803,498)
Accrued liabilities		(11,393,360)
Accrued legal claims		(54,024,620)
Accrued vacations and sick leave		1,339,395
Accrued voluntary incentive plan liability		(5,317,825)
Net cash flows used in operating activities	$	(75,352,302)
Supplemental cash flows information		
Noncash transactions:		
Capital appreciation bonds	$	6,705,601
Transfer in from Commonwealth of PR	$	222,670,000
Impairment loss on deposits with governmental bank	$	61,469,741
Deferred inflow of resources - concession arrangements	$	25,284,099

See accompanying notes.

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Financial Statements

Year Ended June 30, 2015

1. Organization

Puerto Rico Highways and Transportation Authority (the Authority) is a public corporation and instrumentality of the Commonwealth of Puerto Rico, created by Act No. 74 of June 23, 1965, as amended, to design, construct and administer toll roads and highways, and other facilities for the movement of persons, vehicles and vessels, and for the planning, promotion and feasibility of mass transportation systems. The Authority is a component unit of the Commonwealth of Puerto Rico and accordingly is included in the basic financial statements of the Commonwealth of Puerto Rico. The powers are exercised by a Board of Directors that is composed by seven members which have the Authority to approve, amend, and revoke any regulations to perform its duties and to control the capital and operational budget. The Authority is exempt from the payment of any taxes on its revenues and properties.

2. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America, as promulgated in pronouncements of the Governmental Accounting Standards Board (GASB).

The Authority's operations are accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the Authority's operations are included on the statement of net position. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

The Authority accounts for its operations and financings in a manner similar to private business enterprises; the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Such accounts and these financial statements have been prepared on the basis that the Authority will continue as a going concern and as a legally separate governmental entity and component unit of the Commonwealth of Puerto Rico. Additional disclosures within the Notes to these financial statements, particularly in Notes 9, 10, 11, 12, 17, 20 and 21, should be read in connection with consideration of the future ability of the Authority to continue as such.

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Authority considers as cash and cash equivalents all highly liquid investments with original maturities at the date of purchase of three months or less.

Investments

The Authority follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires investments to be reported on the statement of net position at fair value and investment income, including changes in the fair value of investments, to be reported as non-operating expense in the statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values or recognized pricing sources at June 30, 2015.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectibility of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Capital Assets

Cost basis – Capital assets are recorded at historical cost or fair value when estimates are required. The cost of property and equipment includes costs for infrastructure assets (rights-of-way and bridge substructures and highways and bridges), toll facilities, equipment and other related costs (including software), buildings and furniture and equipment. Highways and bridge substructures include road sub-base, grading, land clearing, embankments, and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses paid from construction funds.

2. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Capitalization policy – Infrastructure capital assets (road, bridges, highways, transportation equipment, etc.) are defined by the Authority as assets with an initial, individual cost of more than $500,000 and an estimated useful life of more than one year. Other capital assets, such as equipment, vehicles, etc. are defined by the Authority as assets with an initial individual cost of more than $100 and an estimated life of more than three years.

Costs to acquire additional capital assets, which replace existing assets or otherwise extend their useful lives, are generally capitalized.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are expensed as incurred.

Interest cost is capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of tax-exempt borrowings arrangements restricted for the acquisition of qualifying assets is offset against interest cost to determine the net amount to be capitalized. Interest cost is not capitalized on costs paid with the proceeds of grants or donations restricted solely for construction.

Depreciation of capital assets – Depreciation is provided using the straight-line method over an estimated useful life of 40 years for roads and highways, 50 years for bridges and transportation system (including transportation equipment and facilities) and 10 years for equipment, vehicles and other. Depreciation and amortization for the year ended June 30, 2015, amounted to approximately $448.6 million.

Impairment of capital assets – The Authority has implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The objective of GASB 42 is to establish accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries.

2. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

The Authority evaluated its capital assets as required by GASB No. 42 and an impairment of $1.1 million was identified in the construction in progress account during the year ended June 30, 2015, and it was recorded in the repairs and maintenance of roads and bridges line item of these financial statements.

Service Concession Arrangements

The Authority follows the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* to account for and report service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The term public-private partnership is used to refer to a variety of service arrangements, management arrangements, and SCAs.

This statement establishes that if the facility associated with an SCA is a new facility purchased or constructed by the operator, or an existing facility that has been improved by the operator, the transferor should report (a) the new facility or the improvement as a capital asset at fair value when it is placed in operation, (b) any contractual obligations as liabilities, and (c) a corresponding deferred inflows of resources equal to the difference between (a) and (b). Further, the corresponding deferred inflows of resources should be reduced and revenue should be recognized in a systematic and rational manner over the term of the arrangement, beginning when the facility is placed into operation.

2. Summary of Significant Accounting Policies (continued)

Claims and Judgments

The estimated amount of the liability for claims and judgments is recorded on the accompanying statement of net position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future.

Vacation and Sick Leave

Employees earn annual vacation leave at the rate of 30 days per year up to a maximum permissible accumulation of 30 days for union employees and 60 days for management personnel. Employees accumulate sick leave at the rate of 18 days per year. Sick leave is only payable if the regular employee resigns and has more than 10 years of employment, or retires and takes a pension. Maximum permissible accumulation for sick leave is 90 days for all employees, and the excess is paid within the next year. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrue to employees.

The cost of vacation and sick leave expected to be paid in the next twelve months is classified as current and accrued liabilities while amounts expected to be paid after twelve months are classified as noncurrent liabilities.

Unamortized Gains/Losses on Advance Refunding

Gains/losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount amortized is reported as a component of interest expense. The unamortized portion in reported in deferred inflows or outflows of resources.

Bond Premiums (Discounts) and Bond Issuance Costs

Debt issuance costs are reported as expense during the year they are incurred.

The bond premiums (discounts) are deferred and amortized to expense over the life of the bonds using the effective interest method.

2. Summary of Significant Accounting Policies (continued)

Bond Premiums (Discounts) and Bond Issuance Costs (continued)

Amortization related to bond premiums (discounts) were approximately $7.2 million for the year ended June 30, 2015, and are included as a component of interest expense in the accompanying statements of revenues, expenses and changes in net position.

Net Position

Net position is classified in the following four components in the accompanying statements of net position:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted for Debt Service – Net position restricted for debt service consists of restricted assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction – Net position restricted for construction consists of restricted assets for the specific purpose of financing the construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted – Unrestricted net position consists of net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of net position.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with toll and train fares are recorded as operating revenues when cash is received, except for prepaid amounts which are recognized when earned. Electronic toll label sales and fines fees, impact fees and bridge fees are recorded as other operational income. Expenses related to the administration and maintenance of toll highways and transportation system, repair and maintenance of roads and bridges, and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Non-operating revenues consist principally of gasoline, diesel, petroleum and cigarettes taxes and vehicle license fees which are allocated to the Authority by the Commonwealth of Puerto Rico as approved by law to finance the acquisition and construction of capital assets and for the payment of the related debt. These taxes and fees are recorded as non-operating revenues when the Puerto Rico Treasury Department collects such taxes and informs the Authority.

Contributions

Contributions are funds assigned by the federal and local governments, agencies and/or private companies such as Federal Highway Administration (FHWA) and Federal Transit Administration (FTA) to the Authority for the exclusive purpose of the construction of specific projects or infrastructure repairs and maintenance. Capital contributions of the Authority are reported as contributions as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

The implementation of GASB No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, involved the use of assumptions and estimates in the determination of the cost of general infrastructure assets, such as roads, highways, bridges and land. The cost of such assets was estimated based on current costs for similar assets deflated using the general price index through the estimated average age of the assets.

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage for the last three years including the year ended June 30, 2015.

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Financial Statements (continued)

Year Ended June 30, 2015

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

GASB has issued the following statements that the Authority has not yet adopted:

GASB Statement Number		Adoption Required in Fiscal Year
72	Fair Value Measurement and Application	2016
73	Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68	2016
74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	2017
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	2018
76	The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments	2016
77	Tax Abatement Disclosures	2017
78	Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans	2017
79	Certain External Investment Pools and Pool Participants	2017
80	Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14	2018
81	Irrevocable Split-Interest Agreements	2019
82	Pension Issues – an amendment of GASB Statement No. 67, No. 68 and No. 73	2017
84	Fiduciaries Activities	2018
85	Omnibus	2017
86	Certain Debt Extinguishment Issues	2019

The impact of these statements has not yet been determined by the Authority.

2. Summary of Significant Accounting Policies (continued)

Effects of New Accounting Standards

The following GASB statements were effective for fiscal year 2015:

GASB statement No.68 *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, was issued on June 2012. The primary objective of Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No, 27, *Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This Statement will bring the effect of GASB Statement No. 67 *Financial Reporting for Pension Plans-an amendment of Statement No. 25* into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Retirement Systems. The Authority, as a cost-sharing employer reported its allocated share of the Commonwealth's resulting Net Pension Liability from Statement No. 67 based on their respective individual proportion to the collective net pension liability of all the governments participating. As disclosed in Note 13, the Authority has not implemented the requirements of this standard due to the information to be provided by the Employee Retirement System of the Commonwealth of Puerto Rico to adopt this Statement is not readily available.

GASB No. 69, *Government Combinations and Disposal of Government Operations*. This Statement establish accounting and financial reporting standards related to government combinations and disposal of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers and acquisitions, and transfers of operations. This Statement had no impact on the Authority.

2. Summary of Significant Accounting Policies (continued)

Effects of New Accounting Standards (continued)

GASB Statement No. 71. *Pension Transition for Contributions Made Subsequent to the Measurement Dale*. The objective of Statement No. 71 is to address an issue regarding application of the transition provisions of Statement No. 68. *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The issue relates to amounts associated with contributions made by a state or local government employer or non-employer contributing entity to a deferred benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflows of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

The provisions of this Statement shall be applied simultaneously with the provisions of Statement No. 68. The Authority has not implemented the requirements of this standard due to the information to be provided by the Employee Retirement System of the Commonwealth of Puerto Rico to adopt this Statement is not readily available.

3. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2015, consisted of:

Cash on hand and in banks	$ 14,444,880
Repurchase agreements	13,648,220
Total	$ 28,093,100

Cash and cash equivalents includes overnight deposit acquired under repurchase agreements with the Economic Development Bank (EDB) and the Government Development Bank for Puerto Rico (GDB) in the amount of $13.6 million at June 30, 2015. The deposit is non-collateralized and, therefore, is subject to custodial credit risk.

4. Accounts Receivable, Net

Accounts receivable at June 30, 2015, consisted of:

Government and other agencies	$	55,476,120
Rent receivables		5,211,546
Repairs to highways recoverable from users		1,549,493
Others		5,215,609
Total		67,452,768
Less allowance for doubtful accounts		(56,490,138)
	$	10,962,630

5. Restricted Cash, Cash Equivalents, and Investments with Trustee

Restricted cash, cash equivalents and investments with trustee at June 30, 2015, consisted of:

Cash on hand and in banks	$	839,895
Cash held by:		
Puerto Rico Treasury Department		1,210,875
Government Development Bank		1,670,266
Puerto Rico State Infrastucture Bank		133,998
Total	$	3,855,034

Cash equivalents and investments with trustee:		
Cash equivalents	$	97,299,782
Guaranteed investment contracts		221,610,571
US Government securities		12,894,720
Mortgage backed securities		241,444,502
Total	$	573,249,575

5. Restricted Cash, Cash Equivalents, and Investments with Trustee (continued)

At June 30, 2015, the above amounts were restricted to comply with long-term principal and interest debt service requirements or for construction of transportation facilities. These restricted assets are held by the Fiscal Agent under the Bonds Resolutions in the following funds and accounts:

1968 Reserve Account – Reserve for payment of principal of and interest on Highway Revenue Bonds in the event moneys in Bond Service Account or Redemption Account under Resolution 68-18 are insufficient for such purpose.

1968 Bond Service Account and Redemption Account (Sinking Fund under Resolution 68-18) –Current year requirements for principal and interest on Highway Revenue Bonds.

1998 Senior Reserve Account – Reserve for payment of principal and interest on Senior Transportation Revenue Bonds in the event moneys in Senior Bond Service Account or Senior Bond Redemption Account under Resolution 98-06 are insufficient for such purpose.

1998 Senior Bond Service Account and Senior Bond Redemption Account (Senior Bond Sinking Fund under Resolution 98-06) – Current year requirements for principal and interest on Senior Transportation Revenue Bonds.

1998 Subordinated Reserve Fund – Reserve for payment of principal of and interest on Subordinated Transportation Revenue Bonds in the event moneys in Subordinated Bond Service Account or Subordinated Bond Redemption Account under Resolution 98-06 are insufficient for such purpose.

1998 Subordinated Bond Service Account and Subordinated Bond Redemption Account (Subordinated Bond Sinking Fund under Resolution 98-06) – Current year requirements for principal of and interest on Subordinated Transportation Revenue Bonds.

5. Restricted Cash, Cash Equivalents, and Investments with Trustee (continued)

1998 Construction Fund – Special fund created by the Resolution 98-06. The proceeds of any Transportation Revenue Bonds issued for the purpose of paying the cost of acquiring or constructing transportation facilities, together with the money received from any other source for such purpose, except proceeds which are (i) applied to the repayment of advances, (ii) deposited in the 1998 Senior Bond Reserve Account or 1998 Subordinated Bond Reserve Fund, (iii) deposited in the 1998 Senior or Subordinated Bond Service Account as capitalized interest or (iv) used for the payment of financing expenses, shall be deposited in the 1998 Construction Fund and held by the Fiscal Agent in trust.

2004 Grant Anticipation Bond Reserve Account – Reserve for payment of principal and interest on 2004 Grant Anticipation Bonds in the event insufficient funds for such purpose are available in the Bond Payment Fund.

2014 Bond Anticipation Note Reserve Account – Reserve for payment of principal and interest on 2014 Bond Anticipation Notes in the event insufficient funds for such purpose are available in the Bond Payment Fund.

At June 30, 2015, amounts held by Trustee in the following accounts amounted to (in thousands):

1968 Reserve Account	$	73,286
1968 Sinking Fund		49,767
1998 Senior Reserve Account		244,040
1998 Senior Sinking Fund		147,186
1998 Subordinated Reserve Fund		27,772
1998 Subordinated Sinking Fund		22,598
2004 Construction Fund		8,600
Total	$	573,249

6. Deposits and Investments

The following paragraphs disclose essential risk information about deposits and investments as required by Governmental Accounting Standard Board Statement No. 40, *Deposits and Investments Risk Disclosures*:

> The Authority is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority. Resolutions 68-18, 98-06 and 04-18 (the Bond Resolutions) require that moneys in the debt service funds be held by Bank of New York (the Fiscal Agent) in trust and applied as provided in the Bond Resolutions.

Pursuant to the Investment Guidelines for the GDB, the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

Custodial Credit Risk – Deposits

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. Deposits maintained in GDB or EDB are exempt from collateral requirement established by the Commonwealth and thus represents custodial credit risk because in the event of GDB's or EDB's failure, the Authority may not be able to recover the deposits.

All moneys deposited with the Trustee or any other depository institution hereunder in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency are continuously secured by lodging with a bank or trust company approved by the Authority and by the Trustee as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations or other marketable securities.

6. Deposits and Investments (continued)

Custodial Credit Risk - Deposits (continued)

At June 30, 2015, the Authority was exposed to the following custodial credit risk arising from the balance of deposits maintained in governmental and commercial banks as follows:

	Non-Restricted		Restricted	
	Book Balance	**Bank Balance**	**Book Balance**	**Bank Balance**
Commercial banks	$ 13,344,040	$ 13,733,012	$ 839,895	$ 839,895
Governmental banks	14,749,060	22,681,004	3,015,139	41,429,098
	$ 28,093,100	$ 36,414,016	$ 3,855,034	$ 42,268,993

Impairment Loss on Deposits with Government Development Bank (GDB)

Management concluded that the information available prior to the issuance of the Authority's financial statements for the year ended June 30, 2015 indicates that it is probable that an impairment loss on the Authority's deposits held with GDB exists as of June 30, 2015.

The Commonwealth and its public entities have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to repay its obligations.

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due, as further described below. Pursuant to recently enacted legislation, the Governor of the Commonwealth has ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

6. Deposits and Investments (continued)

Impairment Loss on Deposits with Government Development Bank (GDB) (continued)

As a result of the reductions in liquidity experienced subsequent to June 30, 2014, GDB took a number of liquidity enhancing and conservation measures, and expired the sale of assets and other alternatives to address its liquidity needs. Considering GDB's significant debt service obligations during fiscal year 2016, these measures, however, are not expected to be sufficient to maintain GDB's operations in the ordinary course absent the completion of capital market transactions, a restructuring of GDB's debt, and the payment by the Commonwealth of debt service on GDB's public sector loans payable from annual appropriations. As a result of non-payment by the Commonwealth of the appropriation to GDB and GDB's inability to restructure its debt in light of the broader fiscal crisis faced by the Commonwealth, GDB was not in a position to pay principal on its debt obligations due on May 1, 2016 and continue operations in the ordinary course. In April 2016, the Governor imposed on GDB emergency operational restrictions and debt moratorium described in Note 20.

Due to the conditions and events described above, GDB's management believes substantial doubt exists as the GDB's ability to continue as a going concern.

Therefore, an impairment loss on deposits held with GDB was recorded in the Authority's Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2015 as follows:

	Deposits Held in GDB as of June 30, 2015		
	Deposit balance	Impairment Loss	Book Balance
Cash and cash equivalents unrestricted	$ 34,884,812	$ (6,791,712)	$ 28,093,100
Cash and cash equivalents (unrestricted and restricted)	43,533,062	(39,678,029)	3,855,033
Cash and cash equivalents and investments with trustee	588,249,575	(15,000,000)	573,249,575
Total	$ 666,667,449	$ (61,469,741)	$ 605,197,708

6. Deposits and Investments (continued)

Impairment Loss on Deposits with Government Development Bank (GDB) (continued)

The realizable balance of the deposits held with the GDB as of June 30, 2015 was determined based on the corresponding actual collections received from the GDB on such deposits after the June 30, 2015 year end.

In addition, management estimates that an additional impairment loss on deposits held with GDB of approximately $7.5 million will be recorded in the Authority's financial statements for the year ended June 30, 2016 corresponding to new deposits opened during the fiscal year ended June 30, 2016.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that in event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority invests in prime investments with a minimum quality rating of Aa1 (Moody's) or AA+ (Standard and Poor's). In addition, investment in bond sinking funds are limited to investments in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

The Authority maintains funds and accounts under the Bonds Resolutions that are held by a trustee. As of June 30, 2015, the total account balance amounted to approximately $573.2 million. These accounts invest on different types of short-term and long-term securities, including Guaranteed Investment Contracts (GICs). Under these GICs, the financial institution guarantees the Authority a fixed rate of return. As established in the contract, the financial institution has invested such funds in predetermined securities such as cash, U.S. Treasury and U.S. Government Agency securities. These securities are pledged and serve as collateral for the account balance. The fair value of the GICs is determined based on the fair value of the underlying investments based on quoted market prices and then adjusted to contract value. As of June 30, 2015, the contract value, which represents amounts deposited plus interest credited less withdrawals, is equal to the fair value.

6. Deposits and Investments (continued)

Custodial Credit Risk – Investments (continued)

Providers of guaranteed investment contracts as of June 30, 2015, are as follows:

Wells Fargo	$ 37,928,000
Bank Of America	71,759,778
FSA Capital Management Services	44,674,427
Citigroup Financial Products, Inc.	13,909,070
Wachovia Bank, NA	26,512,201
Westdeutsche Landesbank	26,827,095
	$ 221,610,571

Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes to market interest rate. Maturities of cash and cash equivalents and investments with Trustee at June 30, 2015, are as follows:

	Less than One Year	One to Five Years	Five to Ten Years	Ten to Twenty Years	Total
Cash equivalents	$ 97,299,782	$ –	$ –	$ –	$ 97,299,782
Guaranteed investment contracts	103,540,166	26,512,201	–	91,558,204	221,610,571
US Government and agencies securities	12,894,720	–	–	–	12,894,720
Mortgage backed securities	128,893,023	105,876,199	6,675,280	–	241,444,502
Total	$ 342,627,691	$ 132,388,400	$ 6,675,280	$ 91,558,204	$ 573,249,575

7. Capital Assets, Net

The following schedule summarizes the capital assets, net, held by the Authority as of June 30, 2015:

	Balance at June 30, 2014	Increases	Decreases	Balance at June 30, 2015
Assets not being depreciated				
Land	$ 1,914,303,413	$ **13,038,943**	$ **(11,759,559)**	$ **1,915,582,797**
Construction in progress	331,960,703	**129,511,949**	**(112,181,309)**	**349,291,343**
Total	2,246,264,116	**142,550,892**	**(123,940,868)**	**2,264,874,140**
Assets being depreciated				
Transportation system	2,419,375,826	**–**	**–**	**2,419,375,826**
Roads	12,676,780,231	**200,330,055**	**(94,232,768)**	**12,782,877,518**
Bridges	3,501,351,731	**13,796,232**	**(7,704,610)**	**3,507,443,353**
Building	22,500,000	**–**	**–**	**22,500,000**
Equipment, vehicles and other	141,129,684	**4,505,404**	**(10,778,633)**	**134,856,455**
Total	18,761,137,472	**218,631,691**	**(112,716,011)**	**18,867,053,152**
Less accumulated depreciation	(10,270,650,953)	**(448,687,832)**	**12,326,650**	**(10,707,012,135)**
Total assets being depreciated	8,490,486,519	**(230,056,141)**	**(100,389,361)**	**8,160,041,017**
Total capital assets, net	$ 10,736,750,635	$ **(87,505,249)**	$ **(224,330,229)**	$ **10,424,915,157**

Interest expense incurred during the year ended June 30, 2015, amounted to approximately $372.9 million, of which approximately $1.9 million was capitalized as part of construction in progress in the accompanying statement of net position.

8. Highways and Bridge under Service Concession Arrangement

Toll Roads Service Concession Agreement (PR-5 and PR-22)

On September 22, 2011, the Authority entered into a toll road service concession agreement with Autopistas Metropolitanas de Puerto Rico, LLC (the Concessionaire), in which the Authority granted to the Concessionaire the right to operate PR-5 and PR-22 highways (the Toll Roads) for a period of 40 years (the Concession Agreement). During the 40-year term, the Concessionaire will have the right to charge and collect the tolls imposed on the Toll Roads.

The Authority received an upfront concession fee payment of $1.136 billion, from which approximately $873.1 million was used to redeem or defease bonds issued and outstanding associated with the Toll Roads.

In 2012, the Authority recorded a deferred inflows of resources of concession arrangement of $1.136 billion that will be amortized and recognized as revenue over the 40-year term of the agreement. In 2012, the Authority recognized $21.0 million of revenue related to this transaction and will recognize $28.4 million for each subsequent year through 2052. The Toll Roads (capital assets) will continue to be reported in the statements of net position as a separate item as highways and bridge under service concession arrangement. Toll Roads amounted to approximately $90.7 million, net of accumulated depreciation. Toll Roads should not be depreciated until the end of the agreement starting on September 22, 2011 since the concession agreement requires the Concessionaire to return the Toll Roads to the Authority in its original or an enhanced condition.

In addition, the Authority capitalized and considered as deferred inflows of resources $5.8 million during 2015, for improvements made by the Concessionaire to the Toll Roads.

Bridge Service Concession Arrangement

On December 20, 1992, the Authority and Autopistas entered into a service concession agreement amended in 2004 and 2009, for the design, construction, operation and maintenance of the Bridge, a toll bridge, which traverses the San José Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994 (valuation date). The initial term of this agreement was 35 years, expiring on April 3, 2027. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044). GASB No. 60 establishes that in the first period that this statement is applied, changes resulting from the implementation of this statement should be treated as an adjustment of prior periods, and the financial statements presented for the periods affected should be restated. As of

8. Highways and Bridge under Service Concession Arrangement (continued)

Bridge Service Concession Arrangement (continued)

June 30, 2013, the Authority recognized the Bridge at fair value, equivalent to what the Authority might have paid to have the Bridge constructed (replacement cost) at valuation date. The replacement cost was determined to be $109.5 million depreciated over an estimated useful life of 50 years and a deferred inflows of resources of $109.5 million that will be amortized and recognized as revenue over the term of the agreement (50 years). The asset balance related to the Bridge was adjusted to recognize the first 17 years of operation and the remaining amortization will be amortized by 33 years.

Under certain circumstances, including if minimum toll revenues are not achieved, the Concession Agreement may be terminated and the Authority is then obligated to assume all of Autopistas' obligations to pay principal of, and interest on, the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Bridge. Although Autopistas currently has the ability to terminate the Concession Agreement and have the Authority to assume the obligations, the Authority has not received such notice and does not currently expect the Concession Agreement to terminate. The outstanding bonds (including accrued interest), which are not reflected in the Authority's statement of net position, at June 30, 2015, amounted to approximately $150.7 million.

The highways and bridge under service concession arrangement, net of accumulated amortization at June 30, 2015 consisted of:

Toll Roads Concession	$ 90,740,065
Toll Roads Concession Improvements	22,062,173
Bridge Concession	64,495,500
Total	$ 177,297,738

The deferred inflows of resources at June 30, 2015, consisted of:

Toll Roads Concession	$ 1,050,418,786
Bridge Concession	63,510,000
Total	$ 1,113,928,786

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to the Financial Statements (continued)

Year Ended June 30, 2015

9. Long-Term Liabilities

Long-term debt activity for the year ended June 30, 2015 was as follows:

	Balance at June 30, 2014	Issuance / Accretions	Payments / Amortization	Balance at June 30, 2015	Due within One Year	Due Thereafter
Serial bonds						
Resolution 68-18	$ 450,665,000	$ –	$ (13,575,000)	$ 437,090,000	$ 11,955,000	$ 425,135,000
Resolution 98-06	1,388,225,000	–	(82,125,000)	1,306,100,000	58,370,000	1,247,730,000
Total	1,838,890,000	–	(95,700,000)	1,743,190,000	70,325,000	1,672,865,000
Term bonds						
Resolution 68-18	419,810,000	–	–	419,810,000	14,815,000	404,995,000
Resolution 98-06	1,845,010,000	–	(11,900,000)	1,833,110,000	2,965,000	1,830,145,000
Total	2,264,820,000	–	(11,900,000)	2,252,920,000	17,780,000	2,235,140,000
Variable rate bonds						
Resolution 98-06	200,000,000	–	–	200,000,000	–	200,000,000
CPI based interest-rate bonds						
Resolution 98-06	57,965,000	–	–	57,965,000	–	57,965,000
LIBOR based interest-rate bonds						
Resolution 98-06	700,000	–	–	700,000	–	700,000
Capital appreciation bonds						
Resolution 68-18	23,381,722	1,080,536	–	24,462,258	–	24,462,258
Resolution 98-06	113,322,340	5,625,065	–	118,947,405	25,250,000	93,697,405
	136,704,062	6,705,601	–	143,409,663	25,250,000	118,159,663
Subtotal	4,499,079,062	6,705,601	(107,600,000)	4,398,184,663	113,355,000	4,284,829,663
Add net bond premium	267,189,006	–	(7,221,187)	259,967,819	8,862,656	251,105,163
Default event*	–	–	–	–	110,396,307	(110,396,307)
Total bonds outstanding	$ 4,766,268,068	$ 6,705,601	$ (114,821,187)	$ 4,658,152,482	$ 232,613,963	$ 4,425,538,519
Other long-term liabilities						
Accrued legal claims	$ 216,170,623	$ 10,241,043	$ (64,265,663)	$ 162,146,003	$ 28,846,359	$ 133,299,644
Accrued vacations and sick leave	21,168,187	6,120,142	(5,449,099)	21,839,230	9,693,773	12,145,457
Voluntary termination incentive plan liability	80,502,917	–	(5,317,825)	75,185,092	9,240,722	65,944,370
Bond anticipation notes	400,000,000	–	(400,000,000)	–	–	–
Non-revolving lines of credit	1,813,901,822	–	(922,329)	1,812,979,493	1,812,979,493	–
Total other liabilities	2,531,743,549	16,361,185	(475,954,916)	2,072,149,818	1,860,760,347	211,389,471
Total non-current liabilities	$ 7,298,011,617	$ 23,066,786	$ (590,776,103)	$ 6,730,302,300	$ 2,093,374,310	$ 4,636,927,990

* As discussed in Note 22 the Authority failed to make a portion of the bond principal payments and interest on July 1, 2016, January 1, 2017 and July 1, 2017, amounting to $110,396,307. As a result, these amounts were reclassified from non current liabilities to current liabilities in the Statement of Net Position.

10. Bond Anticipation Notes

On August 29, 2013, the Authority issued 2013A Bond Anticipation Notes (the "Series A Notes") amounting to $400.0 million, purchased by a financial institution, for the repayment of various Authority's loans with GDB or lines of credit (LOC), including the corresponding fee and cost of issuance. The Series A Notes matures on September 1, 2015. On February 12, 2014, the Authority amended the documents to its $400.0 million bond anticipation notes, limiting the holder's right to accelerate and waiving covenant defaults due to the downgrades. Principal set-asides will continue as originally scheduled. All such notes must be paid no later than maturity date of the original note. The notes bear interest equal to LIBOR plus applicable spread.

On March 16, 2015, the Authority and the PRIFA signed a trust agreement to create a Dedicated Tax Fund Revenue Bond Anticipation Notes (PRIFA BANs) to repay the Bonds Anticipation Notes outstanding balance of $227.6 million and the associated fees of issuance relating to the PRIFA BANs. This transaction resulted in a transfer in of $222.7 million for the year ended June 30, 2015. These notes will be secured either by payments made by the Authority and or by certain petroleum and vehicle licenses revenues.

Under certain circumstances of non-performance by PRIFA, the Authority is obligated to assume the obligation to pay principal of, and interest on, the PRIFA BANs outstanding. The outstanding bonds (including accrued interest), which are not reflected in the Authority's statement of net position, at June 30, 2015, amounted to approximately $78.3 million.

11. Bonds Payable

The bond resolutions authorize the issuance of revenue bonds to obtain funds to pay the construction and related costs of transportation facilities. Bonds outstanding under the bond resolutions at June 30, 2015, consisted of:

11. Bonds Payable (continued)

RESOLUTION 68-18	
Serial bonds, maturing through 2034 with interest ranging from 3.30% to 6.50%	$ 437,090,000
Term bonds, maturing through 2039 with interest ranging from 4.00% to 6.00%	419,810,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 4.36% to 4.58%	24,462,258
Subtotal	881,362,258
RESOLUTION 98-06	
Serial bonds, maturing through 2037 with interest ranging from 2.25% to 5.75%	1,306,100,000
Term bonds, maturing through 2046 with interest ranging from 2.25% to 5.75%	1,833,110,000
Variable rate bonds, USD SIFMA swap index less a spread of .5%	200,000,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 4.47% to 5.08%	118,947,405
LIBOR based interest rate bonds maturing through 2045	700,000
Consumer Price Index based interest rate bonds maturing through 2028	57,965,000
Subtotal	3,516,822,405
Total bonds outstanding	4,398,184,663
Add: Net unamortized premium	259,967,819
Net bonds payable	4,658,152,482
Less: Current portion	(232,613,963)
Long-term portion	$ 4,425,538,519

The bonds are secured by a pledge of the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes, a maximum of $11.0 million monthly (but not more than $120.0 million annually) derived from excise taxes over crude oil and its derivatives, $15 per vehicle per year from motor vehicle license fees, the proceeds of any other taxes, fees or charges which the Legislature of Puerto Rico may allocate to the Authority in the future and which the Authority may pledge, proceeds of any tolls or other charges which the Authority may impose for the use of any of its traffic facilities and certain investment earnings.

The proceeds of the gasoline tax, the gas oil and diesel oil tax, the crude oil tax and the motor vehicle license fees allocated to the Authority are taxes and revenues available under the Constitution of the Commonwealth of Puerto Rico for the payment of principal and interest of bonds.

11. Bonds Payable (continued)

Accordingly, if needed, they are subject to being applied first to the payment of debt service on the public debt of the Commonwealth, but such taxes and license fees are to be used for such payments only if and to the extent that all other available revenues of the Commonwealth under the Constitution are insufficient for such purpose. The Commonwealth has not previously applied these taxes and revenues for such payments. However, on December 1, 2015, the Commonwealth announced its intention to utilize such taxes and revenues to meet its own obligation as needed.

The Bond Resolutions further provides that receipts of pledged revenues be deposited in certain accounts with the Fiscal Agent for the payment of interest and principal of the bonds outstanding.

Nothing in the Bond Resolutions is to be construed as preventing the Authority from financing any facilities authorized by the Act that created the Authority, as amended, through the issuance of bonds or other obligations, which are not secured under the provisions of the Bond Resolutions.

The LIBOR based interest-rate bonds consisted of $389.0 million of the 2007 Revenue Refunding Bonds Series N, from which approximately $388.4 million were repurchased by the Authority through a "non-revolving" line of credit provided by Government Development Bank in the amount of $294.6 million approximately. This transaction resulted in a gain of $83.0 million for the year ended June 30, 2012. The repurchase portion of the 2007 Revenue Refunding Bonds Series N is held by the Authority; therefore, there is no outstanding balance at year end. The line of line of credit with GDB was paid in full during 2014.

The Series N LIBOR Bonds bear interest from their date of delivery at a per annum rate for each period equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) a per annum spread equal to 0.53%. In each case the LIBOR-based interest rate cannot exceed the maximum rate permitted under Puerto Rico law (currently 12%).

Interest on the Consumer Price Index (CPI) Bonds will be payable on the first business day of each month commencing on July 2, 2007. The CPI Rate, which will be reset monthly, is an interest rate based on changes in the CPI and cannot exceed the maximum rate permitted under the Puerto Rico law (currently 12%).

11. Bonds Payable (continued)

Debt Maturities

The outstanding bonds as of June 30, 2015, require future payments of principal and interest as follows:

Fiscal years ended June 30,	Principal	Interest	Total
2016	$ 113,355,000	$ 234,087,702	$ 347,442,702
2017	116,723,203	229,506,592	346,229,795
2018	120,487,765	224,560,432	345,048,197
2019	124,510,100	219,408,444	343,918,544
2020	121,365,000	213,890,618	335,255,618
2021-2025	750,967,959	966,616,569	1,717,584,528
2026-2030	856,843,170	772,721,266	1,629,564,436
2031-2035	986,200,000	549,462,034	1,535,662,034
2036-2040	1,014,305,000	277,829,022	1,292,134,022
2041-2045	166,095,000	73,078,655	239,173,655
2046-2048	27,332,466	3,863,602	31,196,068
Total	$ 4,398,184,663	$ 3,765,024,936	$ 8,163,209,598

For variable interest-rate bonds included above, the debt service requirements and net swap payments were computed assuming current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

11. Bonds Payable (continued)

Debt Refunding

The outstanding balances as of June 30, 2015, of the bond issues defeased by the Authority are as follows:

Series Y	$ 422,680,000
Series K	485,105,000
Series J	278,900,000
Serie M	10,000
Serie I	1,520,000
Serie AA	191,655,000
Serie BB	22,425,000
Serie CC	8,825,000
Serie W	36,990,000
Series X	37,890,000
Serie Z	28,685,000
Total outstanding defeased bond issued	$ 1,514,685,000

12. Borrowings under Lines of Credit

At June 30, 2015, lines of credit consist of the following:

Description	Amount
Non-revolving line of credit of up to $147,113,000 bearing interest at the Government Development Bank (GDB) cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on January 31, 2016.	$ 122,158,602
Non-revolving line of credit of up to $140,000,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on January 31, 2016.	134,494,228
Non-revolving line of credit of up to $78,300,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on January 31, 2016.	70,913,399
Non-revolving line of credit of up to $400,000,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 275 basis points (6.00% at June 30, 2015), which expired on January 31, 2016.	400,000,000
Non-revolving line of credit of up to $148,900,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on January 31, 2016.	111,000,000
Non-revolving line of credit of up to $37,900,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on January 31, 2016.	37,900,000

(continued)

12. Borrowings under Lines of Credit (continued)

Description	Amount
Non-revolving line of credit of up to $20,000,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transaction plus a margin of 125 basis points (6.00% at June 30, 2015), which expired on January 31, 2016.	16,422,152
Non-revolving line of credit of up to $3,000,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on January 31, 2016.	2,686,850
Non-revolving line of credit of up to $63,000,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on January 31, 2016.	62,027,260
Non-revolving line of credit of up to $115,440,890 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on January 31, 2016.	115,440,890
Non-revolving line of credit of up to $206,213,757 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on August 31, 2015.	206,213,757
Non-revolving line of credit of up to $70,937,649 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on August 31, 2015.	40,539,865

(continued)

12. Borrowings under Lines of Credit (continued)

Description	Amount
Non-revolving line of credit of up to $87,174,596 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on August 31, 2015.	87,174,596
Non-revolving line of credit of up to $7,350,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on August 31, 2015.	4,771,606
Non-revolving line of credit of up to $16,252,489 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on August 31, 2015.	16,252,489
Non-revolving line of credit of up to $26,654,079 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on August 31, 2015.	26,654,079
Non-revolving line of credit of up originally to $21,791,245 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015, which expired on August 31, 2015.	21,791,245
Non-revolving line of credit of up to $167,048,225 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on August 31, 2015.	167,048,225

(continued)

12. Borrowings under Lines of Credit (continued)

Description	Amount
Non-revolving line of credit of up to $49,325,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on January 31, 2016.	49,325,000
Non-revolving line of credit of up to $11,397,243 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on August 31, 2015.	4,556,604
Non-revolving line of credit of up to $33,960,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on January 31, 2016.	9,869,606
Non-revolving line of credit of up to $33,189,996 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2015), which expired on January 31, 2016.	32,612,862
Non-revolving line of credit of up to $61,830,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2014), which expired on January 31, 2016.	59,048,507
Non-revolving line of credit of up to $15,000,000 bearing interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin of 150 basis points (6.00% at June 30, 2014), which expired on June 30, 2015.	14,077,671
Total	$ 1,812,979,493

12. Borrowings under Lines of Credit (continued)

The total lines of credit with the Government Development Bank of Puerto Rico as of June 30, 2015 became in default as of August 31, 2015, and January and remain in default as of June 30, 2016, the date of this report.

13. Retirement Plan

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth. The Retirement System consists of different benefit structures, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program and a defined contribution hybrid program.

Disclosures about the Defined Benefit Retirement Plans

(a) Defined Benefit Program

Pursuant to Act No. 447 of May 15, 1951, as amended, all regular employees of the Authority hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the Retirement System, under the Defined Benefit Program, as a condition of their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

The Defined Benefit Program provides retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits.

13. Retirement Plan (continued)

(a) Defined Benefit Program (continued)

Members who have attained 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. The annuity for which the participant is eligible, is limited to a minimum of $500 per month and a maximum of 75% of the average compensation, as defined.

Participants who have completed 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

The Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary.

Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the Retirement System effective April 1, 1990. These changes consist principally of an increase in the retirement date from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who have completed 30 years of creditable service.

On September 24, 1999, the Legislature enacted Act No. 305, which amended Act No. 447 to establish a new retirement program. In addition, on April 4, 2013, the Legislature enacted Act No. 3, which amended the provisions of the different benefit structures under the Retirement System, including the Defined Benefit Program.

13. Retirement Plan (continued)

(b) System 2000 Program

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to create, among other things the System 2000 Program, a new benefit structure, similar to a cash balance plan (defined contribution plan). All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Defined Benefit Program, received a refund of their contributions, and were rehired on or after January 1, 2000, and became members of the System 2000 Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the Defined Benefit Program had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the Defined Benefit Program plus interest thereon to the System 2000 Program.

Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary to the System 2000 Program. Employee contributions are credited to individual accounts established under the System 2000 Program. Participants have three options to invest their contributions to the system 2000 Program. Investment income is credited to the participant's account semiannually.

Under System 2000 Program, contributions received from participants are pooled and invested by the Retirement System, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program will be paid from the same pool of assets. As a different benefit structure, the System 2000 Program is not a separate plan and the Commonwealth does not guarantee benefits at retirement age.

Corresponding employers' contributions will be used by the Retirement System to reduce the unfunded status of the Defined Benefit Program.

The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined this plan on or after January 1, 2000.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries.

13. Retirement Plan (continued)

(b) System 2000 Program (continued)

Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

On April 4, 2013, the Legislature enacted Act No. 3 which amended the provisions of the different benefit structures under the Retirement System, including the System 2000 Program.

(c) Defined Contribution Hybrid Program

On April 4, 2013, the Legislature enacted Act No. 3, which amended Act No. 447, Act No. 1 and Act No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants who as of June 30, 2013, have not reached the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

13. Retirement Plan (continued)

(c) Defined Contribution Hybrid Program (continued)

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under the Retirement System, including, but not limited to, the following:

1. Increased the minimum pension for current retirees from $400 to $500 per month.
2. The retirement age for the Act No. 447 participants will be gradually increased from age 58 to age61.
3. The retirement age for the active System 2000 Program participants will be gradually increased from age 60 to age 65.
4. Eliminated the "merit annuity" available to participants who joined the retirement System prior to April 1, 1990.
5. The retirement age for new employees was increased to age 67.
6. The employee contribution rate was increased from 8.275% to 10%.
7. For the System 2000 Program participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
8. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the Retirement System.
9. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
10. Survivor benefits were modified.

13. Retirement Plan (continued)

(c) Defined Contribution Hybrid Program (continued)

Employee contributions are credited to individual accounts established under the Defined Contribution Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty-five percent (0.25%) is required for the purchase of disability insurance.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death, the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service, a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump sum or purchasing an annuity contract.

For the year ended June 30, 2015, the Authority was required to contribute 13.275% of each participant's gross salary under the different benefit structures. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent (1.25%).

Total employee contributions for the defined benefit pension plan, the defined contribution plan and the defined contribution hybrid program during the year ended June 30, 2015, amounted to approximately $6.4 million. The Authority's contributions (either paid or accrued) during the year ended June 30, 2015 amounted to approximately $8.4 million. These amounts represented 100% of the required contribution for the corresponding year. Total payroll subjected to retirement contributions amounted to approximately $50.3 million for the year ended June 30, 2015. Individual information for each option is not available since the allocation is performed by the Retirement System itself.

13. Retirement Plan (continued)

(c) Defined Contribution Hybrid Program (continued)

Statement No. 68 of the *Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB 68)* became effective for the year ended June 30, 2015. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the Retirement Systems.

As of the date of the release of this report, the Retirement System has not provided the Authority with the required information to implement the requirements of Statement No. 68 of the Governmental Standards Board, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No 27 (GASB 68). Therefore, the accompanying financial statements do not have any adjustments that will be necessary for the Authority to account for its proportionate share of the net pension liability, deferred inflows of resources and deferred outflows of resources in the statements of net assets as of July 1, 2014 and June 30, 2015, as well as the effect in the recorded pension expense in the statement of activities for the year ended June 30, 2015. Preliminary unaudited estimates made by Employee Retirement System of the Commonwealth of Puerto Rico indicated a possible additional liability arising from the adoption of this statement of approximately of $505.6 million as of June 30, 2015. Also, additional disclosure required by GASB 68 as well as required supplementary information were not included in the basic financial statements.

Additional information on the Retirement System is provided on its standalone financial statements for the year ended June 30, 2014, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

14. Other Post-Employment Benefits

The Authority has implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* (GASB 45). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB No. 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the plan.

Plan Description

The Authority agreed to provide medical, pharmacy, dental and vision medical insurance coverage to eligible retirees, its spouses and dependents, for a period of two years after retirement as a single employer defined benefit as Other Post-Employment Benefits Plan (the Plan). The Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The obligations of the Plan members' employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

The Authority currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Authority.

14. Other Post-Employment Benefits (continued)

Annual OPEB Cost and Net OPEB (Asset) Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Authority has engaged an actuary to calculate the ARC and related information per the provisions of GASB No. 45 for employers in the Plan with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year ended June 30, 2015, the amount actually contributed to the plan, and the Authority's net OPEB (asset) obligation to the Plan:

Annual required contribution (ARC)	$ 303,752
Adjustment to annual required contribution	45,052
Annual OPEB cost (AOC)	348,804
Contribution made	21,474
Decrease in net OPEB obligation	327,330
Net OPEB asset at beginning of year	(1,506,466)
Net OPEB asset at end of year	$ (1,179,136)

The OPEB asset is recorded in the Prepaid Expenses and Other Assets accounts in the accompanying statement of net position. The Authority's annual OPEB cost, percentage of annual OPEB cost contribution to the plan, and net OPEB (asset) obligation for the year ended June 30, 2015, were as follows:

Ended	OPEB Cost	OPEB Cost Contributed	(Asset)/ Obligation
2015	$ 348,804	6.16%	$ (1,179,136)
2014	347,886	7.23%	(1,506,466)
2013	378,179	14.89%	(1,829,177)
2012	704,307	231.68%	(2,151,043)

14. Other Post-Employment Benefits (continued)

Annual OPEB Cost and Net OPEB (Asset) Obligation (continued)

During 2015, the Authority detected an error in their GASB No. 45 valuation. During the fiscal years 2011 through 2014, Authority included the Act No. 70 benefits under the GASB No. 45 valuation, which resulted in an overstatement of the Net Other postemployment benefit of $804,490. The error was corrected in the Authority's 2015 financial statements by increasing salaries and related benefits. Management believes correcting the error in the current year is not material for the 2015 or previous period financial statements. Furthermore, OPEB cost and unfunded accrued liability as presented in the Notes to the financial statement and related Required Supplementary Information (RSI) has been corrected to exclude Act. No 70 benefits. The result of this correction was to decrease the OPEB cost as of 2014, as previously disclosed, from $4.7 million to $348 thousand and to reduce accrued and unfunded accrued liability (actuarial valuation date July 1, 2012) from $48.7 million to $2.7 million.

As of June 30, 2015, the actuarial accrued liability for benefits was $2,745,000, which were unfunded. The covered payroll (annual payroll of active employees covered by the plan) were approximately $52,105,536 during the year ended June 30, 2015, and the ratio of the unfunded actuarial accrued liability to the covered payroll was approximately 92.7% as of June 30, 2015.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to the point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The valuation date was July 1, 2014 and the *Projected Unit Credit Cost Method* was used. The actuarial assumptions were based on a set of assumptions modified to the Authority.

14. Other Post-Employment Benefits (continued)

Methods and Assumptions (continued)

Turnover rates were taken from a standard actuary table, T-5. This table was chosen so as to match the Authority's historical turnover experience. Retirement rates were also based on recent Authority's experience, but are less reliable due to the size of the current retiree group and the relative newness of the program.

A discount rate of 3.25% was used. This rate is the best actuarial estimate of expected long-term experience and is in accordance with guidelines for selection of these rates under GASB 45. The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

15. Voluntary Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 years to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee' salary, as defined. In this early retirement benefit program, the Authority will make the employee and the employer contributions to the Retirement System and pay the corresponding pension obligation until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement.

Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement, the Authority will make the employee and the employer contributions to the Retirement System for a five-year period.

15. Voluntary Termination Benefits (continued)

Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Authority.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of $75.1 million in the statement of net position as of June 30, 2015, and a charge of $3.2 million in the statement of revenues, expenses and changes in net position for the years ended June 30, 2015. At June 30, 2015, unpaid long-term benefits granted on this program were discounted between 2.3% and 2.84%, respectively, for early retirement benefits that will be provided to eligible employees that have completed between 15 years to 29 years of credited service in the Retirement System and between .46% and 1.16% and 1.04% and 1.66%, respectively, for employee and the employer contributions to the Retirement System to eligible employees that have 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement.

16. Related Party Transactions

Operating administrative and general expenses during the fiscal years ended June 30, 2015, included approximately $11.9 million of charges from Puerto Rico Electric Power Authority (PREPA), a component unit of the Commonwealth.

As of June 30, 2015, the Authority had approximately $46.2 million of receivables from the Commonwealth and its component units, which were reported in accounts receivable in the accompanying statement of net position. In addition, due from Commonwealth and its components units also includes an account receivable from PRDT which amounted to approximately $59.8 million, which includes an allowance for doubtful accounts of $32.9 million.

Over the years, GDB, as fiscal agent and bank of the Commonwealth, had extended lines of credit to the Authority in order to finance capital improvement projects and operational deficits. As of June 30, 2015, the Authority an outstanding balance of approximately $1,812.9 million under these lines of credit. Related to these lines of credit, the Authority had interest payable accumulative to $270.3 million at June 30, 2015. The Authority is in default on these line.

Bonds payable include $200.0 million variable rate bonds, purchased by GDB from a third-party on May 19, 2014.

16. Related Party Transactions (continued)

As of June 30, 2015, the Authority has amounts due to other governmental entities for operating leases and other agreements of approximately $60.8 million.

On March 16, 2015, the Authority and the PRIFA signed a trust agreement to create a Dedicated Tax Fund Revenue Bond Anticipation Notes (PRIFA BANs) to repay the Bonds Anticipation Notes outstanding balance of $227.6 million and the associated fees of issuance relating to the PRIFA BANs. This transaction resulted in a transfer in of $222.7 million for the year ended June 30, 2015. These notes will be secured either by payments made by the Authority and or by certain petroleum and vehicle licenses revenues.

17. Commitments and Contingent Liabilities

Construction

As of June 30, 2015, the Authority had commitments of approximately $158.2 million related to construction contracts.

Employee Related

On June 24, 2014, the Puerto Rico Public Corporation Debt Enforcement and Recovery Act was approved by the Commonwealth of Puerto Rico in order to establish a debt enforcement, recovery, and restructuring regime for the public corporations and other instrumentalities of the Commonwealth of Puerto Rico during an economic emergency during three years. Resulting from the approval and implementation of this Act, the vacation and sick leave policy was modified in which the employees will earn a vacation benefit at a rate of 15 days and an accumulate sick leave benefit at a rate of 12 days per year. On September 8, 2016, the vacation and sick leave policy was modified in which the employees will earn the same benefit established before the implementation of this Act.

17. Commitments and Contingent Liabilities (continued)

Leases

The Authority has various non-cancelable operating leases for office space with the Puerto Rico Public Buildings Authority and Puerto Rico Port Authority, which are related parties, and other lessors. These leases have an initial term of three years or more, the latest of which expires in June 2090, and can be renewed at end of lease term for an additional year. The rental expense net of capitalization for the years ended June 30, 2015, was approximately $101.4 thousand. Future rental payments as of June 30, 2015 under these leases are as follows:

Year ending June 30,		
2016	$	2,042,742
2017		1,818,408
2018		1,818,408
2019		1,818,408
2020		1,818,408
2021-2025		3,877,404
Thereafter		1,365,000
	$	14,558,778

Litigation

The Authority is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects.

As of June 30, 2015, the Authority, based on legal advice, has recorded a liability of approximately $162.1 million for probable losses on those claims not fully covered by insurance. Outstanding legal liability is composed of $95.8 million of legal cases related to construction projects and $66.3 million related to expropriation and related costs. In the opinion of legal counsel, any liability in excess of the recorded liability that may arise from such claims would not be significant to the Authority's financial position or results of operations.

17. Commitments and Contingent Liabilities (continued)

Special Facility Revenue Bonds

On December 20, 1992, the Authority and Autopistas entered into a service concession agreement (the Concession Agreement), amended in 1992, and again in 2004, for the design, construction, operation and maintenance of the Bridge, a toll bridge, which traverses the San José Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994. The initial term of this agreement is 35 years, expiring on April 3, 2027. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044).

In March 1992, the Authority issued Special Facility Revenue Bonds, 1992 Series A, B and C amounting to approximately $117.0 million for the purpose of facilitating the construction of the Bridge. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, the borrower, pursuant to a loan agreement (the Loan Agreement) by and between Autopistas and the Authority.

On October 30, 2003, the Authority issued Special Facility Revenue Refunding Bonds, 2004 Series A amounting to approximately $153.0 million for the purpose of refunding the Authority's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the Bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, pursuant to a new loan agreement by and between Autopistas and the Authority.

Under certain circumstances, including if minimum toll revenues are not achieved, the Concession Agreement may be terminated and the Authority is then obligated to assume all of Autopistas' obligations to pay principal of, and interest on, the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Bridge. Although Autopistas currently has the ability to terminate the agreement and has the Authority to assume the obligations, the Authority has not received such notice and does not currently expect the Concession Agreement to terminate. The outstanding bonds (including accrued interest), which are not reflected in the Authority's statement of net position, at June 30, 2015, amounted to approximately $150.7 million.

17. Commitments and Contingent Liabilities (continued)

Federal Assistance Programs

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, or to compliance audits by grantor agencies. On March 31, 2014, the Federal Highway Transportation approved $756.4 million in toll credits that may be applied toward the non-Federal matching share of transit projects. These toll credits will remain available until used. Since inception only $90M in toll credits have been claimed, there is an outstanding balance of $660M waiting validation for future federally aided projects.

18. Operation and Maintenance of Urban Train System

The Authority entered into a System and Test Track Turnkey Contract (STTT Contract) with Siemens Transportation Partnership Puerto Rico, S.E., Juan R. Requena y Asociados, and Alternate Concepts, Inc. (all together known as "Siemens") for the purpose of operating and maintaining the Tren Urbano. During 2005, the STTT Contract became effective upon the execution of the contract for an initial term of five years with an option by the Authority to extend the term for an additional five years. The compensation is based on a schedule included in the master agreement which approximates $4.0 million on a monthly basis. The total annual operation and maintenance cost, including cost of insurance and electricity, for fiscal year 2015, was approximately $87.4 million.

Costs incurred in connection with the integrated transportation system financed in part by the Authority during the years ended June 30, 2015, amounted to approximately $16.4 million.

On June 5, 2015, the Authority extended the contract for the operation and maintenance of the Tren Urbano for one (1) additional year ending on June 6, 2016.

As authorized by Resolution 2007-40, the Authority contracted the Metropolitan Bus Authority (AMA), a public corporation of the Commonwealth of Puerto Rico, to operate the service known as Metrobus II which consists of a feeder bus service of 21 AMA routes that were changed to service the Urban Train stations. This feeder bus service is considered a key strategy for increasing rail ridership.

18. Operation and Maintenance of Urban Train System (continued)

Metrobus I service consists of two express routes, Metrobus Route I and Metrobus Expreso, which provides service between the University of Puerto Rico and Old San Juan. The Authority contracted First Transit to operate this service. The service is provided seven days a week using 24 buses owned by First Transit. The existing service agreement with First Transit expired on June 30, 2015.

19. Other Operational Income

Other income for the years ended June 30, 2015, consisted of:

Impact fee	$ 1,846,050
Electronic toll label sales and fines fees	41,853,137
Bridge Fee	1,643,545
Metrobus fare fees	947,008
Others	380,347
Total	$ 46,670,087

20. Fiscal Condition and Liquidity

The Authority has experienced significant recurring losses from operations and faces a number of business challenges that have been exacerbated by the Commonwealth's economic recession and the fact that the Authority has not increased tolls to its customers at sufficient levels to offset the effects of its rising costs. Its principal challenges, some of which are interrelated, are: (i) reduction of operating costs; (ii) increase in the use of federal grants; and (iii) improving its liquidity.

Between 2008 and 2012 the Authority borrowed more than $2 billion dollars from the Government Development Bank (GDB) to finance infrastructure projects and pay operational expenses. These borrowings, in the form of lines of credit, had no source of repayment. The outstanding balance of these lines of credit as of June 30, 2015 amounts to $1.8 billion. These lines of credit expired in January 2016 and are currently in default.

20. Fiscal Condition and Liquidity (continued)

On January 15, 2015, the Act No.1, as amended, was created by the Commonwealth of Puerto Rico to increase the petroleum tax revenues from $9.25 to $15.50 per petroleum barrel, starting on March 15, 2015. The new tax rate of the petroleum products tax will be distributed as follows:

$6.00 per barrel to the Authority; and $9.50 per barrel to the Puerto Rico Infrastructure Finance Authority (PRIFA). The Authority's alternative plans are the following:

- During the fiscal years 2016 and 2015, the Authority has collected $40.0 million and $125.0 million, respectively from the new tax rate of $6.00 per barrel as authorized by the Act No.1, as amended, created by the Commonwealth of Puerto Rico on January 15, 2015. These amounts, collected by the Authority for the fiscal years 2016 and 2015, represent 33% and 100%, respectively, of the total revenue recognized in the financial statements. The remaining 67% of the 2016 revenues are due from the Commonwealth as of today.

- As authorized by the Act No. 31, approved on June 25, 2013, the Authority will receive an annual transfer of $20 million from the excise tax on the consumption of cigarettes. The cigarette tax actual amount transferred to the Authority in fiscal years 2016 and 2015 amounted $17.4 million and $18.7 million respectively. These amounts collected by the Authority for the fiscal years 2016 and 2015 represents the 87% and 94%, respectively, of the total revenue recognized in the financial statements.

- On June 25, 2013, the Act No. 30 established the transfer of motor vehicle fees to the Authority that was previously deposited in the General Fund of the Commonwealth Government. In fiscal years 2016 and 2015, the transfer of those motor vehicle fees to the Authority amounted to $ 43.90 million and $ 79.5 million respectively. These amounts collected by the Authority for the fiscal years 2016 and 2015 represents the 87% and 88%, respectively, of the total revenue recognized in the financial statements.

- On March 31, 2014, the Federal Highway Transportation approved $756.4 million in toll credits that may be applied toward the non-Federal matching share of transit projects. Since inception only $90 million in toll credits have been claimed, there is an outstanding balance of $660 million waiting validation for future federally aided projects.

20. Fiscal Condition and Liquidity (continued)

- On August 3, 2014, the Governor of the Commonwealth of Puerto Rico signed the Law No. 123-2014 to create the Integrated Transportation Authority of Puerto Rico (ATI) to establish their purposes, duties, powers and authorities and to authorize the Authority to transfer the Urban Train System during fiscal year 2016. According to this Act, ATI will be in charge of the Metropolitan Bus Authority and the Authority of Maritime Transportation. The train operating and maintenance expense net of revenues will be reduced by approximately $58 million annually after the transfer of the Urban Train System.

- On July 1, 2015, the electronic toll system is administered by a new operator with a new contract for five years ending on July 1, 2019. This agreement decreased the toll operation expense by $10.0 million per year.

Certain taxes and revenues, as discussed above, have been previously assigned by law to the Authority. However, the Commonwealth recently announced both its ability and intention to utilize such taxes and other revenues to maintain sufficient liquidity in order to allow it to continue to meet its obligations as well as provide other essential central government services. Such action, could have a significant negative impact on the liquidity of the Authority.

The Authority does not currently have sufficient funds available to fully repay its various obligations as they come due or that are currently in default, and is working on extending the due date of the obligations or obtaining new financing to provide relief and/or funds to repay the existing amounts of principal and interest or bring the outstanding balances current at the various due dates as well as to continue operate and to finance capital improvement projects. Additionally, significant support and funding for obligations of the Authority has previously been provided by the Commonwealth and sources from other entities that are part of the Commonwealth, such as the GDB or other. The Commonwealth and such entities are experiencing significant financial difficulties and may be unable to continue to extend, refinance or otherwise provide the necessary liquidity to the Authority as and when needed. As such, current defaults may not be cured and future defaults on the Authority's obligations may not be avoided. Management has plans to address its liquidity situation and continue its services and believes it will be able to repay or refinance its obligations and also continue to operate as a separate governmental entity. However, there can be no assurance that the Commonwealth will continue to provide adequate support or continue to allow the Authority to operate as a separate entity or that the affiliated or unaffiliated lenders will be able and willing to refinance or modify the terms of the Authority's obligations. As

20. Fiscal Condition and Liquidity (continued)

such, there can be no assurance that management's current plans to repay or refinance the obligations or extend their terms will be achieved or that services will not have to be terminated, curtailed or modified.

On May 21, 2017, Puerto Rico's Financial Oversight Board ("the Board") filed a form of bankruptcy petition for the Puerto Rico Highway and Transportation Authority under Title III of PROMESA, a special law passed by U.S. Congress to deal with Puerto Rico's fiscal sustainability. The Board is a key administrative component of PROMESA. At the time of the petition, it is estimated that PRHTA's debt amounted to approximately $4.291 billion, excluding approximately $1.733 billion in GDB bonds. Title III is an in-court debt restructuring process akin to U.S. bankruptcy protection, since Puerto Rico is barred from using Chapter 9 of the U.S. federal bankruptcy code reserved for insolvent public entities. The petition before the Federal court must be ratified by a Federal judge and has the effect of triggering the automatic freeze of all litigation from creditors against the Puerto Rico Highway and Transportation Authority.

21. Going Concern

The discussion in the following paragraphs regarding the Authority's financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt and/or restructurings or noncompliance with capital or reserve requirements, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation. The Authority faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due. The risks and uncertainties facing the

21. Going Concern (continued)

Authority together with other factors further described below, have led management to conclude that there is substantial doubt as to the ability of the Authority to continue as a going concern in accordance with GASB Statement No. 56.

Based on these facts, there is substantial doubt that the Authority will continue to operate as a going concern.

On December 1, 2015, the Commonwealth announced that it would claw back gasoline, oil, diesel, and petroleum taxes that had been allocated to PRHTA. These revenues are to be used for other essential services within the Commonwealth of Puerto Rico. The Authority has seen the effect of this claw back on its revenues for fiscal year 2016. As shown in the facts above, the Authority has not collected 100% on its revenues subject to this claw back. To date, the claw back has not been lifted. Even though the effective date of the claw back ends on February 2017, there has been no indications that it would be lifted.

The Authority made the payments due on July 1, 2015, however without these revenues the Authority is unable to deposit additional monies in the bond payment reserve accounts. Without additional deposits the ability to continue making the schedule payments on the bonds issued will be diminished.

The Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raise substantial doubt about the Commonwealth's ability to continue as a going concern. The significant financial difficulties being experienced by the Commonwealth has a significant adverse impact on the Authority.

The Commonwealth and several of its component units face significant risks and uncertainties, including liquidity risk. The risks and uncertainties facing the Commonwealth, together with other factors, have led the Commonwealth's management to conclude that there is substantial doubt as to the ability of the primary government and of various discretely presented component units, to continue as a going concern.

The Commonwealth currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity are the vulnerability of revenue streams during times of major economic downturns and large health care, education, pension and

21. Going Concern (continued)

debt service costs. As the Commonwealth's tax base has shrunk and its revenues are affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services. The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. More recently, these matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth had relied more heavily on short-term financings and interim loans from the GDB, and other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and the GDB in particular, and increased near-term refinancing risk. These factors have also resulted in delays in the repayment by the Commonwealth and its instrumentalities of outstanding GDB lines of credit, which delays have limited the GDB's ability to continue providing liquidity to the Commonwealth and have caused the GDB to fail to make a principal payment on its debt obligations. These factors are reflected in the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the Commonwealth, which had already been placed within non-investment grade ratings in February 2014. They also lowered their ratings on the bonds of other component units of the Commonwealth, including the GDB and the Authority, all of which were lowered multiple notches in the grading levels.

In addition, although neither the Commonwealth nor its component units, including the Authority, are eligible to seek relief under Chapter 9 of the United States Bankruptcy Code, on June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In broad terms, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

21. Going Concern (continued)

First, to ensure fiscal and economic discipline, PROMESA creates a federally appointed oversight board that has plenary authority over Puerto Rico's finances. The board's primary function is to provide fiscal oversight through the development and approval of fiscal plans and budgets, and to enforce compliance with those plans and budgets through broad-based powers such as reducing non-debt expenditures and instituting certain hiring freezes. The board also has oversight over legislative processes because PROMESA requires the board to review new laws and deny their enforcement if they are inconsistent with the approved fiscal plans and budgets. The board also has authority to review contracts to ensure compliance with the fiscal plan, and to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan. Second, the enactment of PROMESA also operates as a broad-based stay on litigation, applicable to all entities, with respect to claims related to Puerto Rico's financial debt, as well as on enforcement of provisions in contracts that allow for termination and the exercise of remedies based on non-payment of financial obligations, among other conditions. Finally, PROMESA contains two methods to adjust Puerto Rico's debts. The first method is a streamlined process to achieve modifications of financial indebtedness with the consent of a supermajority of affected financial creditors. This method has benefits such as potential speed relative to a traditional restructuring through a formal in-court process. The second method is a court-supervised debt-adjustment process, which is modeled on Chapter 9 of the U.S. Bankruptcy Code. This process includes the so-called "cram-down" power, which may provide Puerto Rico with flexibility in debt adjustment, but it also gives the oversight board total control over the adjustment process and includes certain provisions designed to protect creditor interests. On August 31, 2016, the U.S. President announced the appointment of seven members to the Oversight Board.

The Commonwealth expects that its ability to finance future budget deficits will be severely limited even if it achieves a comprehensive debt restructuring, and, therefore, that it will be required to, among other measures, reduce the amount of resources that fund important governmental programs and services in order to balance its budget. There is no assurance, however, that budgetary balance will be achieved and, if achieved, that such budgetary balance will be based on recurring revenues or expense reductions or that the revenue or expense measures undertaken to balance the budget will be sustainable on a long-term basis. Moreover, the measures to achieve budgetary balance through austerity may adversely affect the performance of the Commonwealth's economy which, in turn, may adversely affect governmental revenues. The current level of resources provided to the Authority could be adversely affected in the future as a result of the severe financial condition of the Commonwealth.

21. Going Concern (continued)

Unless the Commonwealth is able to obtain financing in the very near term or to reach restructuring or forbearance agreements with its creditors, it may not be able to honor all of its obligations as they come due while at the same time providing essential government services. Furthermore, the restructuring proposals presented by the Commonwealth depend on one hundred percent participation, which can only be achieved practically through a mechanism to bind holdout creditors. While PROMESA provides the Commonwealth tools to bind such holdouts and adjust its debts in an orderly manner, PROMESA gives the oversight board total control over such adjustment process and includes certain provisions designed to protect creditor interests, which are untested. There is thus no assurance that the federally appointed oversight board of PROMESA will be successful in achieving budgetary and fiscal balance through a debt restructuring or otherwise.

The Authority had also been highly reliant on GDB, a component unit of the Commonwealth, for liquidity and financial management support. The Commonwealth and its public entities have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to repay its obligations.

GDB traditionally served as a source of emergency liquidity to bridge the Commonwealth deficits, but now is also experiencing its own liquidity constraints and is thus unable to continue serving in such role. Loans granted by GDB to the Commonwealth and its component units constitute a significant portion of GDB's assets. As a result, GDB's liquidity and financial condition depends to a large extent on the repayment of loans made by the Commonwealth and its component units, which face significant fiscal and financial challenges. A significant portion of these loans are payable from budgetary appropriations, which have been significantly reduced in recent years. The GDB's liquidity and financial condition depends on the repayment of loans by the Commonwealth and its component units, which face significant fiscal and financial challenges in their ability to generate sufficient funds from taxes, charges and/or future bond issuances. The GDB's financial condition and liquidity has significantly deteriorated during fiscal years 2015 and 2016 as a result of some of the same factors that have affected the Commonwealth, including lack of market access and the inability of the Commonwealth and its instrumentalities to repay their loans to GDB.

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due, as further described below. Pursuant to enacted legislation, the Governor of the Commonwealth has ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

21. Going Concern (continued)

On April 6, 2016, the Governor of Puerto Rico signed into law the Puerto Rico Emergency Moratorium and Rehabilitation Act ("Act No. 21"). Among other objectives, Act No. 21 allows the Governor to declare a moratorium on debt service payments and to stay related creditor remedies for a temporary period for the Commonwealth, the GDB, the Economic Development Bank for Puerto Rico, and certain additional government instrumentalities in Puerto Rico, including the Authority. The temporary period set forth in Act No. 21 lasts until January 31, 2017, subsequently extended until April 30, 2017. The provisions regarding the moratorium and stay in respect of any obligations owed by the Authority require executive action of the Governor to become effective.

On April 8, 2016, the Governor of Puerto Rico signed an executive order, E0-2016-010 (EO 10), declaring GDB to be in a state of emergency pursuant to Act No. 21. EO 10, in accordance with the emergency powers provided for in Act No. 21, implemented a regulatory framework governing GDB's operations and liquidity, including establishing a procedure with respect to governmental withdrawals, payments, and transfer requests in respect of funds held on deposit at GDB and loan disbursements by GDB. The procedures implemented by the EO 10 may result in restrictions on the ability of the Authority to withdraw any funds held on deposit at GDB or to receive any disbursements on loans granted by GDB during the period of the EO 10, which is in effect until June 30, 2016. However, while the EO 10 created a stay on the enforcement of certain financial debt obligations of GDB, it did not impose a moratorium on any financial debt obligation of GDB.

As a result of the reductions in liquidity experienced subsequent to June 30, 2014, GDB took a number of liquidity enhancing and conservation measures, and explored the sale of assets and other alternatives to address its liquidity needs. In light of GDB's significant debt service obligations during fiscal year 2016, these measures, however, are not expected to be sufficient to maintain GDB's operations in the ordinary course absent the completion of a capital market transaction, a restructuring of GDB's debt, and the payment by the Commonwealth of debt service on GDB's public sector loans payable from annual appropriations. As a result of the non-payment by the Commonwealth of the appropriation to GDB and GDB's inability to restructure its debt in light of the broader fiscal crisis faced by the Commonwealth, GDB was not in a position to pay principal on its debt obligations due on May 1, 2016 and continue operations in the ordinary course. In April 2016, the Governor imposed on GDB emergency operational restrictions and debt moratorium described below.

21. Going Concern (continued)

Due to the conditions and events described above, GDB's management believes substantial doubt exists as to GDB's ability to continue as a going concern. The conditions discussed above create significant uncertainty with regard to the timing and amount of repayment of deposits and other amounts owed to the Authority by the GDB. Further, the significant financial difficulties being experienced by the GDB is likely to have a significant adverse impact on the Authority, given its reliance on the GDB for funding and lack of available funding alternatives.

On June 30, 2016, the Governor of Puerto Rico signed Executive Order No. OE-2016-030 (EO 30) and Executive Order No. OE-2016-031 (OE 31) which (i) declared the Commonwealth and several of its instrumentalities, including the Authority, to be in a state of emergency and announced the commencement of an emergency period (as such term is defined in Section 103 of the Act No. 21) for the Commonwealth and such instrumentalities, including the Authority, (ii) extended the state of emergency that had been previously declared for several of the Commonwealth's instrumentalities, (iii) implemented a suspension on transfer obligations of the Commonwealth and certain of its instrumentalities, including the Authority, with respect to the transfer of funds to and from such entities (pursuant to Section 201 of Act No. 21), and (iv) implemented a suspension on the payment obligations of debt issued or guaranteed by the Commonwealth, as well as the payment obligations of certain of its instrumentalities, including the Authority. The aforementioned measures were in place until January 31, 2017, as such date may be extended in accordance with Act No. 21.

Specifically to the Authority, EO 31 establishes the following: (i) to keep the toll revenues for the payment of its operational expenses; (ii) and suspends transfers to the fiscal agent under the Resolution 68-18 dated June 13, 1968, as amended, and Resolution 98-06 dated June 13, 1968, as amended. Any payments due on bonds will be made exclusively utilizing the bond current reserves. In addition, EO-2016-31 suspends the transfer of pledged revenues under Acts 30 & 31 to the GDB to the extent that those revenues are needed by PRHTA to finance its operational expenses and/or pay for essential services. EO 31 does not suspend the payment obligations of the Authority with respect to any other obligation.

21. Going Concern (continued)

Compliance with the Act No. 21 's suspension of payments of certain debt service obligations of, and/or transfers of certain revenues by the Commonwealth and several other instrumentalities, including the Authority, may constitute an event of default under certain of the relevant governing bond documentation. However, pursuant to Section 201 of the Act No. 21, EO 30 and EO 31 provide that no entity or person may take action or commence any proceeding, including the exercise of any remedy (such as acceleration of amounts otherwise due), related to, whether directly or indirectly, the obligations covered by such suspensions of payments and/or transfers under the Act No. 21.

Given the high dependency of the Authority on the Commonwealth and on GDB' s potential credit extension to fund the Authority's operational and short-term needs as they arise, as both Commonwealth's and GDB's liquidity continues to be challenged and their appropriations and financing ability become more uncertain, the Authority's financial condition and liquidity could be adversely affected. As a consequence, the Authority may not be able to avoid future defaults on its obligations. Management has plans to address the Authority's liquidity situation and continue providing services.

However, there can be no assurance that the Commonwealth will be able to continue to provide adequate appropriations or funding alternatives or that the affiliated or unaffiliated creditors will be able and willing to refinance or modify the terms of the Authority's obligations, that management's current plans to repay or refinance the obligations or extend their terms will be achieved or that certain services will not have to be terminated, curtailed or modified. These conditions raise substantial doubt about the Authority's ability to continue as a going concern.

In response to any potential delays of appropriations payments by the Commonwealth and the lack of available financing, the Authority has developed various cash flow scenarios in an attempt to meet payment of key disbursements and has established additional controls over cash management and budget monitoring.

On May 21, 2017, Puerto Rico's Financial Oversight Board ("the Board") filed a form of bankruptcy petition for the Puerto Rico Highway and Transportation Authority under Title III of PROMESA, a special law passed by U.S. Congress to deal with Puerto Rico's fiscal sustainability. The Board is a key administrative component of PROMESA. At the time of the petition, it is estimated that PRHTA's debt amounted to approximately $4.291 billion, excluding approximately $1.733 billion in GDB bonds. Title III is an in-court debt restructuring process akin to U.S.

21. Going Concern (continued)

bankruptcy protection, since Puerto Rico is barred from using Chapter 9 of the U.S. federal bankruptcy code reserved for insolvent public entities. The petition before the Federal court must be ratified by a Federal judge and has the effect of triggering the automatic freeze of all litigation from creditors against the Puerto Rico Highway and Transportation Authority.

22. Subsequent Events

Subsequent events were evaluated through August 4, 2017, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2015 financial statements.

On July 1, 2015, the electronic toll system is administered by a new operator with a new contract for five years ending on July 1, 2019. This agreement decreased the toll operation expense by $10.0 million per year.

On December 1, 2015, the Governor of the Commonwealth of Puerto Rico signed Executive Order No. OE-2015-46 ("EO 46"), which provides that the Commonwealth of Puerto Rico will begin to redirect certain revenues in light of recently revised revenues estimates and its deteriorating liquidity situation. Pursuant to the EO 46, certain available revenue that have been pledged to pay debt service on the debt of the Authority will be redirected, pursuant to the constitutional requirements (the clawback provision), to pay debt issued or guaranteed by the Commonwealth. The Secretary of the Treasury will retain, for the application to payments due on the Commonwealth's public debt, approximately $272.3 million assigned to pay debt of the Authority which by law, constitute "available resources" subject to the Commonwealth's priority provision set forth in the Constitution.

On December 28, 2015, Act. No.21, known as the "Pre-retirement Voluntary Program Act" (the Act) was enacted. The Act allows eligible active employees under the Government of Puerto Rico Employee Retirements System (the Retirement System) under Act No. 447, hired before April 1990, with a minimum of twenty years (20) of service, to participate in a voluntarily retirement program. The Authority expects savings of $98.9 million at the culmination of the program. This program is under the evaluation of the Office of Management and Budget.

22. Subsequent Events (continued)

On April 19, 2016, the Authority entered into an amendment of the Concessionaire Agreement to extend the original term to ten (10) additional years and to create five (5) bi-directional tolling points on PR-5 and PR-22 highways. The Authority received an upfront concession fee payment of $100.0 million, from which was used to pay $18.2 million of Authority current debts and $79.8 million to pay Commonwealth debts. Also, the Authority will receive additional $15.0 million on the earlier of the bidirectional tolls commencement date on June 30, 2017.

On June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth and its component units' access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. On August 31, 2016, the U.S. President announced the appointment of seven members to the Oversight Board.

On June 30, 2016, the Governor of the Commonwealth of Puerto Rico signed Executive Order No. OE-2016-31 ("EO 31"). This EO 31 establishes that the Authority will not receive revenues previously assigned by law and will not have to pay the principal and interest of the outstanding balance of the bonds obligations. The Authority will use only the toll revenues to pay its operating obligations and any excess of this revenues over the operating obligations will be used to pay the principal and interest of the lines of credit. The Commonwealth of Puerto Rico expects that the toll revenues will be enough source of income to meet all remaining liabilities and end with a self-sustain operations.

On July 1, 2016, the trustee of the Authority's 1998 Resolution SIB Bonds notified the Authority that it failed to make a portion of the principal and interest payment to the trustee on July 1, 2016 and that a default under the trust agreement constitutes an event of default under the 1998 Resolution SIB Bonds Trust Agreement. As such, the Authority is in default of this obligation. The trustee is not seeking to collect or recover any indebtedness from, enforce any judgment against, or obtain possession of, or exercise control over, any property of or from, the Commonwealth or any of its instrumentalities, including the Authority, or exercise any act that is stayed by PROMESA, the Act No. 21, or any Executive Orders related thereto. Consistent with PROMESA, the Act No. 21, and the Executive Orders, the trustee is not exercising, at this time, any rights or remedies against the Commonwealth or any of its instrumentalities, including the Authority.

22. Subsequent Events (continued)

On May 21, 2017, Puerto Rico's Financial Oversight Board ("the Board") has filed a form of bankruptcy petition for the Puerto Rico Highway and Transportation Authority under Title III of PROMESA, a special law passed by U.S. Congress to deal with Puerto Rico's fiscal sustainability. The Board is a key administrative component of PROMESA. At the time of the petition it is estimated that PRHTA's debt amounted to approximately $4.291 billion excluding approximately $1.733 billion in GDB bonds. Title III is an in-court debt restructuring process akin to U.S. bankruptcy protection, since Puerto Rico is barred from using Chapter 9 of the U.S. federal bankruptcy code reserved for insolvent public entities. The petition before the Federal court must be ratified by a Federal judge and has the effect of triggering the automatic freeze of all litigations from creditors against the Puerto Rico Highway and Transportation Authority.

The provisions in PROMESA that allow for proceedings to adjust debts, which proceedings follow a similar framework as a municipality bankruptcy under Chapter 9 of the Bankruptcy Code but is broader in scope. The goal is to file and confirm a Plan of Adjustment of Debts (the "Plan"). The confirmed Plan will be binding upon all creditors and the Authority.

The Authority will be able to obtain a discharge prohibiting creditors from collecting on any amounts, or debts, beyond those contemplated in the Plan.

The Chief Justice of the United States Supreme Court designated the Honorable Judge Laura Taylor Swain of the United States District Court for the Southern District of New York to preside over the Title III case. PROMESA does not contain a specific timetable for the conclusion of the Title III proceeding.

The Authority will continue to operate on a daily basis, and the Title III filing will not interfere with any of the properties or revenues of the Debtor; or the use or enjoyment of the Debtor of any income-producing property. The Authority will still be able to use, sell or lease its property subject to certain limitations, and possible Court-approval under certain circumstances. The Board will be the authorized representative of the Debtor on several Title III proceedings before the Court.

On April 28, 2017, the Fiscal Management Oversight Board approved and certified a 10 year fiscal plan for the Puerto Rico Highways and Transportation Authority.

On May 31, 2017, Peaje Investment, LLC filed an adversary proceeding in the Federal Court requesting relief from the stay and adequate protection as part of the Title III case.

22. Subsequent Events (continued)

On June 30th, 2017, the Fiscal Oversight Management Board approved and certified the Budget for the fiscal year 2018 of the Puerto Rico Highways and Transportation Authority.

On July 3, 2017, by virtue of roll over from July 1, 2017, next business day, the trustee of the Authority notified the Authority that if failed to make payment on principal and interesting amounting to $107,286,307 and $116,990,954, respectively, under the 1968 and 1998 Bond Resolutions. Draws were made on various insurance policies insuring interest payments on the bonds amounting to $170,026,416.

Required Supplementary Information

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Funding Progress for Retiree Health Plan

Year Ended June 30, 2015
(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAL Percentage of Covered Payroll [(b)-(a)]/(c)]
July 1, 2014	$ –	$ 2,745	$ 2,745	0.0%	$ 52,106	5.3%
July 1, 2012	–	2,735	2,735	0.0%	94,172	2.9%
July 1, 2010	–	7,662	7,662	0.0%	84,158	9.1%
July 1, 2009	–	7,185	7,185	0.0%	91,396	7.9%

During 2015, the Authority detected an error in their GASB No. 45 valuation. During the fiscal years 2011 through 2014, Authority included the Act No. 70 benefits under the GASB No. 45 valuation, which resulted in an overstatement of the Net Other postemployment benefit of $804,490. The error was corrected in the Authority's 2015 financial statements by increasing salaries and related benefits. Management believes correcting the error in the current year is not material for the 2015 or previous period financial statements. Furthermore, OPEB cost and unfunded accrued liability as presented in the Notes to the financial statement and related Required Supplementary Information (RSI) has been corrected to exclude Act. No 70 benefits. The result of this correction was to decrease the OPEB cost as of 2014, as previously disclosed, from $4.7 million to $348 thousand and to reduce accrued and unfunded accrued liability (actuarial valuation date July 1, 2012) from $48.7 million to $2.7 million.

Other Information (Unaudited)

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Revenues and Expenses by Segment (Unaudited)

Year Ended June 30, 2015

	Toll	ATI	Other	Total
Operating revenues:				
Toll fares	$ 131,985	$ -	$ -	$ 131,985
Train fares	-	10,600	-	10,600
Other revenues	44,985	1,177	508	46,670
Concession agreement	43,563	-	-	43,563
Total operating revenues	220,533	11,777	508	232,818
Operating expenses:				
Salaries and related benefits	9,962	1,119	14,289	25,371
Toll highways administration and maintenance	49,006	-	-	49,006
Train operating and maintenance costs	-	53,830	-	53,830
Integrated transportation system	-	17,786	-	17,786
Repairs and maintenance in projects	5,117	813	42,458	48,388
Utilities	4,554	7,996	-	12,550
Other	4,734	5,951	11,030	21,715
Total operating expenses	73,373	87,496	67,777	228,646
Operating income (loss) before depreciation and amortization	147,160	(75,720)	(67,269)	4,172
Depreciation and amortization	61,600	48,388	338,700	448,688
Operating income (loss)	85,560	(124,108)	(405,969)	(444,516)
Non-operating revenues (expenses):				
Gasoline, diesel, oil and petroleum tax revenues	–	–	404,310	404,310
Cigarette tax	–	–	19,992	19,992
Vehicle license fee	–	–	89,586	89,586
Other revenues	–	–	40,353	40,353
Interest on bonds and lines of credit	(96,454)	(111,293)	(163,230)	(370,977)
Impairment loss on deposit with government bank	(27,186)	–	(34,284)	(61,470)
Investment income:				
Interest income	1,855	3,911	7,271	13,037
Total non-operating (expenses) revenues, net	(121,785)	(107,382)	363,998	134,831
Loss before capital grants and other transfer	(36,225)	(231,490)	(41,971)	(309,685)
Transfer of debt to other governmental agency	–	–	222,670	222,670
Capital grants	16,082	37,062	82,841	135,985
Change in net assets	$ (20,143)	$ (194,428)	$ 263,540	$ 48,970

EY
Building a better working world

Ernst & Young LLP
Plaza 273, 10th Floor
273 Ponce de León Avenue
San Juan, PR 00917-1951

Tel: +1 787 759 8212
Fax: +1 787 753 0808
ey.com

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Puerto Rico Highways and Transportation Authority

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Puerto Rico Highways and Transportation Authority (the Authority), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 4, 2017. We also included an emphasis-of-matter paragraph in our report on the financial statements because of the uncertainty of the Authority's ability to continue as a going concern. Our report included a qualified opinion because the Authority has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standard Board, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68,* because the final audited pension information from the Employee Retirement System of the Government of the Commonwealth of Puerto Rico is not readily available.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below to be significant deficiencies.

Building a better working world

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding Numbers 2015-001 through 2015-005 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Response to Findings

The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

August 4, 2017

Stamp No. E286572
affixed to
original of
this report.

Single Audit Report

EY
Building a better working world

Ernst & Young LLP
Plaza 273, 10th Floor
273 Ponce de León Avenue
San Juan, PR 00917-1951

Tel: +1 787 759 8212
Fax: +1 787 753 0808
ey.com

Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

The Board of Directors
Puerto Rico Highways and Transportation Authority

Report on Compliance for Each Major Federal Program

We have audited the Puerto Rico Highways and transportation Authority (the Authority)'s compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2015. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Puerto Rico Highway and Transportation Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Building a better
working world

Other Matters
In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance
Management of the Puerto Rico Highways and Transportation Authority (the Authority) is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

EY
Building a better working world

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A 133
We have audited the financial statements of the Puerto Rico Highways and Transportation Authority as of and for the year ended June 30, 2015, and have issued our report thereon dated August 4, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

August 4, 2017

Stamp No. E286573
affixed to
original of
this report.

Puerto Rico Highways and Transportation Authority

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

CFDA Number	Federal grantor/ pass through grantor / program or cluster title	Expenditures	Subrecipient Pass Through	Total Federal Expenditures
	U.S Department of Transportation			
20.205	Highway Planning and Construction	$ 87,709,974	$ –	
	Highway Planning and Construction Total			$ 87,709,974
20.507	Federal Transit_Formula Grants	34,034,511	–	
ARRA-20.507	ARRA - Federal Transit_Formula Grants	75,858	126,872	
	Federal Transit Formula Grants Total			34,237,241
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research (Metropolitan Transportation Planning)	896,184	162,735	1,058,919
	Metropolitan Transportation Planning Total			
20.509	Formula Grants for Rural Areas	66,195	438,478	
	Formula Grants for Rural Areas Total			504,673
	Transit Services Programs Cluster			
20.513	Enhanced Mobility for Seniors and Individuals with Disabilities	70,166	1,725,466	
20.516	Job Access and Reverse Commute Program	48,093	286,218	
20.521	New Freedom Program	2,360	603,771	
	Transit Services Programs Cluster Total			2,736,074
	Total Department of Transportation			126,246,881
	Total Expenditures of Federal Awards			**$ 126,246,881**

See Notes to Schedule of Expenditures of Federal Awards.

Puerto Rico Highways and Transportation Authority
(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Puerto Rico Highways and Transportation Authority (the "Authority") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations.* Therefore, some accounts in this schedule may differ from amounts presented in, or used in the preparation of the Authority's financial statements.

2. Program Clusters

OMB Circular A-133 defines a cluster of programs as a grouping of closely related programs that share common compliance requirements. According to this definition, the *Transit Services Programs Cluster* was identified as a cluster.

Puerto Rico Highways and Transportation Authority

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Section I – Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued (unmodified, qualified, adverse or disclaimer):	Qualified related to GASB 68 implementation with going concern emphasis of a matter paragraph included

Internal control over financial reporting:				
Material weakness(es) identified?	______	**Yes**	X	**No**
Significant deficiency(ies) identified?	X	**Yes**	______	**None reported**
Noncompliance material to financial statements noted?	______	**Yes**	X	**No**

Federal Awards Section

Internal control over major programs:				
Material weakness(es) identified?	______	**Yes**	X	**No**
Significant deficiency(ies) identified?	______	**Yes**	X	**None reported**

Type of auditor's report issued on compliance for major programs (unmodified, qualified, adverse or disclaimer):	Unmodified for each major program

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	X	**Yes**	______	**No**

Identification of major programs:

CFDA number(s)	Name of federal program or cluster
20.205	Highway Planning and Construction
20.507 including ARRA 20.507	Federal Transit Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs: **$3,000,000**

Auditee qualified as low-risk auditee? ______ **Yes** X **No**

Section II – Financial Statement Findings Section

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

Section II – Financial Statement Findings Section (continued)

Finding Number: 2015-001

Criteria
The Authority's financial statement close process was not performed in a timely manner. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a significant deficiency.

Condition
As result of our audit, a total of 8 misstatements were identified. Audit adjustments to reconcile differences, correct amounts incorrectly recorded, and to correct actual year-end balances of assets and liabilities, were required to present fairly stated financial statements in accordance with US GAAP.

As result of our audit procedures, we noted that there is lack of internal controls over the financial statement close process.

Effect
A material misstatement in the financial statements of the Authority may not be prevented or detected and information used by management to make decisions may be inaccurate.

Cause
The Authority lacks effective internal controls over the financial statement close process, which may result in materiality misstated financial information and impairs management's ability to make informed financial and operational decisions in a timely and accurate manner.

Recommendation
Management must reassess its monthly financial statement close procedures to ensure that significant accounts are timely reconciled and analyzed in order to detect and correct material misstatements. The Authority should designate financial analysis duties to capable personnel in order to mitigate the risk of material misstatement of the financial statements.

Management's Response and Planned Corrective Actions
The Authority concurs with the finding. Please refer to separately issued corrective action plan.

Section II – Financial Statement Findings Section (continued)

Finding Number: 2015-002

Criteria
The Authority has control deficiencies in its internal controls over maintaining appropriate supporting evidence for recording and monitoring of tolls revenues. Due to nature and magnitude of this control deficiency, such control deficiency is considered to be a significant deficiency.

Condition

During our documentation of controls over "Auto Expreso" operations, we noted that there is lack of effective monitoring controls over transactions processed by the service organization that manages the collection and reporting of such revenue. We were not able to ascertain that the information received from the service organization is validated by the Authority. The Authority records the toll revenue, when received by the tolls revenue center, without an effective review process.

Effect
A material misstatement of the financial statements of the Authority may not be prevented or detected and information used by management to make decisions maybe inaccurate.

Cause
Lack of effective internal controls over the monitoring and validation of toll revenue information received from the service organization.

Recommendation
Management must perform monthly monitoring and review of significant accounts to ensure timely recording of transactions and compliance with authoritative accounting principles.

Management's Response and Planned Corrective Actions
The Authority concurs with the finding. Please refer to separately issued corrective action plan.

Section II – Financial Statement Findings Section (continued)

Finding Number: 2015-003

Criteria
The Authority's lack of control over the accrued legal claims reconciliation process led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a significant deficiency.

Condition
Lack of controls over the accrued legal claim reconciliations has prevented the Authority from establishing an updated accrued legal claims sub-ledger. As a result of our audit, two misstatements were identified. These misstatements resulted in a change in net position of $45.7M and $4.9M change in Capital assets, net.

Effect
This resulted in audit significant adjustments in the Authority's financial statements.

Cause
The Authority does not have controls or procedures in place to reconcile accrued legal claims in a timely manner.

Recommendation
The Authority manages significant disbursements which need to be properly identified and reconciled periodically (e.g., per project and contractor). This situation may cause significant balances that may not be properly recognized or reported. There is a potential risk of understatement of accounts payable, which could promote inadequate relations with vendors and contractors due to unsettled disputes. Furthermore, unintentional or intentional errors may occur through the accounts payable system and not be timely detected due to lack of controls in the reconciliation and review of balances.

We recommend that the Authority develop procedures to facilitate the accurate monthly recording and reconciliation of accounts payable and accrued liability balances to provide management with accurate information. These procedures should include comparing vendors' monthly statements with the Authority's accounting records. Also, the Authority should prepare a full detail accounts payable sub-ledger.

Management's Response and Planned Corrective Actions
The Authority concurs with the finding. Please refer to separately issued corrective action plan.

Section II – Financial Statement Findings Section (continued)

Finding Number: 2015-004

Criteria
The Authority's lack of control over the other postemployment benefit valuation analysis led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a significant deficiency.

Condition
Lack of controls over the review of assumptions and data used in the other post-employment actuarial calculation has prevented the Authority from detecting incorrect assumptions used in the valuation in prior periods. During the fiscal years 2011 through 2014, Authority included the Act No. 70 benefits under the GASB No. 45 valuation, which resulted in and overstatement of Other postemployment benefit of $804,490. The error was corrected in the Authority's 2015 financial statements by increasing salaries and related benefits.

Effect
This resulted in audit significant adjustments in the Authority's financial statements.

Cause
The Authority does not have controls or procedures in place to review assumptions in Other postemployment benefits in a timely manner.

Recommendation
The Authority should analyze and document conclusions relating to other postemployment benefits as they occur throughout the year in order to ensure that they are properly accounted for during the year, including documenting evaluation of support provided to the Authority's specialist and documenting there assessment of their conclusions. This will also improve the timeliness of the year-end financial reporting process.

Management's Response and Planned Corrective Actions
The Authority concurs with the finding. Please refer to separately issued corrective action plan.

Section II – Financial Statement Findings Section (continued)

Finding Number: 2015-005

Criteria
OMB Circular A-133, Subpart C, Section .320, requires that the audit shall be completed and that the reporting package shall be submitted within the earlier of 30 days after the receipt of the auditor's report or nine months after the end of the audit period, unless a longer period is approved by the cognizant or oversight agency.

Pursuant to §____.310 (b) of OMB Circular A-133 related to financial statements, the auditee shall also prepare a schedule of federal expenditures of federal awards (SEFA) for the period covered by the auditee's financial statements.

Condition
The Data Collection Form (DCF) and the Single Audit reporting package were not submitted within nine (9) months after the end of the audit period as required by OMB Circular A-133.

Effect
The lack of appropriate procedures to ensure a complete financial reporting package may cause delays in the single audit issuance process thus affecting low-risk auditee status and future grant awards.

Cause
The Authority does not have procedures in place to ensure a timely completion of and compilation of the Single Audit reporting package and data collection form.

Recommendation
The Authority should improve the procedures to ensure that the information required to complete the financial statements audit is available for examination by the external auditors with sufficient time to complete and issue the reporting package and submit the required single audit report and data collection form within the required period.

Management's Response and Planned Corrective Actions
The Authority concurs with the finding. Please refer to separately issued corrective action plan.

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

No findings to report under Section III.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ey.com

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY

(a Component Unit of the Commonwealth of Puerto Rico)

INDEPENDENT AUDITORS' REPORT
AND
REQUIRED SUPPLEMENTARY INFORMATION
AND SUPPLEMENTARY INFORMATION

June 30, 2016

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
TABLE OF CONTENTS
JUNE 30, 2016

BDO

BDO PUERTO RICO, PSC
1302 Ponce De Leon Ave.
Suite 101
San Juan, Puerto Rico 00907
Tel: 787-754-3999
Fax: 787-754-3105
www.bdopr.com

BDO USVI, LLC
Foothills Professional Building
9151 Estate Thomas, Suite 201
St. Thomas, VI 00802
Tel: 340-776-0640
Fax: 340-779-8653
www.bdousvi.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico):

Report on the Financial Statements

We have audited the accompanying financial statements of the Puerto Rico Highways and Transportation Authority (a Component Unit of the Commonwealth of Puerto Rico) (the "Authority"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

BDO

To the Board of Directors of
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico)
Page 2

Basis for Qualified Opinion

As described in Note 15 to the basic financial statements, the Authority has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standard Board, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68, because the final audited pension information from the Employee Retirement System of the Government of the Commonwealth of Puerto Rico is not readily available. Therefore, the Authority has not recorded its proportionate share of net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense, and the Authority has not recognized the effect of current period changes in the net pension liability as it relates to, deferred outflows of resources, deferred inflows of resources and pension expense for the year ended June 30, 2016.

Accounting principles generally accepted in the United States of America require that the net pension liability, deferred outflows of resources, deferred inflows of resources, as applicable, be recognized in accordance with parameters established by Statements No. 68 and No. 71, as well as the effect of current period changes of the Net Pension Liability that must be recognized in pension expense during the current period.

In addition, the accompanying notes to the basic financial statements do not disclose the pension related information required by Statement No. 68. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of the matter described above in the Basis for Qualified Opinion paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2016, and the changes in financial position and, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

The Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 4 to the financial statements, the Authority has significant recurring losses from operations and does not have sufficient funds available to fully repay its various obligations as they come due, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 4.

In addition, as discussed in Notes 3 and 4 on May 21, 2017, the Financial Oversight and Management Board for Puerto Rico, filed a petition for relief for the Authority under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act, 48 U.S.C. §§ 2101, *et seq.* ("PROMESA"). Title III is an incourt debt restructuring process similar to Chapter 9 of the U.S. Bankruptcy Code. The financial statements do not include any adjustments that might result from the outcome of this proceeding. Our opinion is not modified with respect to this matter

BDO

To the Board of Directors of
Puerto Rico Highways and Transportation Authority
(a Component Unit of the Commonwealth of Puerto Rico)
Page 3

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 13 and the schedule of funding progress for retiree health plan on page 61 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Schedule of Authority's Contributions and the Schedule of Authority's Proportionate share of the Net Pension Liability that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

The schedule of revenues and expenses by segment on page 63, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BDO Puerto Rico PSC

San Juan, Puerto Rico

April 6, 2018

Certified Public Accountants
(of Puerto Rico)
License No.53 Expires December 1, 2018
Stamp E304958 of P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

The following discussion and analysis of the financial performance and activity of the Puerto Rico Highways and Transportation Authority (the "Authority") provides an introduction and understanding of the basic financial statements of the Authority for the fiscal years ended June 30, 2016 and 2015. This discussion was prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follows this section.

Financial Highlights

The Authority's net position totaled $2,569.9 million and $3,026.4 million at June 30, 2016 and 2015, respectively. Net position decreased by $456.6 million during the year ended June 30, 2016 as compared to an increase of $49.0 million during the year ended June 30, 2015. This change is due principally to a decrease in the gasoline, diesel and other taxes allocated by the Commonwealth of Puerto Rico during the year ended June 30, 2016 as explained in Note 4 to the financial statements.

The Authority's net capital assets, including assets under service concession agreements, totaled $10,306.9 million and $10,602.2 million at June 30, 2016 and 2015, respectively. Net capital assets decreased by 2.79% at June 30, 2016, when compared with the balance at June 30, 2015.

Long-term debt amounted to $4,606.8 millions at June 30, 2016 compared to $4,756.2 million at June 30, 2015 which consist principally of bonds payable. The decrease during the year ended June 30, 2016 consist principally of principal payments on bonds payable. Subsequent to June 30, 2016 and as described in Note 22 to the financial statements, the Authority defaulted in the debt service payments of certain bonds payable.

Financial Statements

The basic financial statements provide information about the Authority's activities. The financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Overview of the Financial Statements

The financial statements consist of the: (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, (3) statement of cash flows, and (4) notes to the financial statements. The financial statements are prepared on the accrual basis of accounting, meaning that all expenses are recorded when incurred and all revenues are recognized when earned, in accordance with U.S. generally accepted accounting principles.

Statement of Net Position

The statement of net position reports all financial and capital resources of the Authority. The statement is presented in the format where assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources plus net position. Assets and liabilities are presented in order of liquidity and are classified as current (convertible into cash or due and payable within one year) and noncurrent. The focus of the statement of net position is to show a picture of the liquidity and financial health of the Authority as of the end of the year.

The Authority's net position is reported in the following categories:

Net Investment in Capital Assets - This component of net position consists of all capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Although the Authority's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from toll operations, vehicle license fees, certain investment income, gasoline and petroleum taxes allocated annually by the Commonwealth of Puerto Rico, since the capital assets themselves cannot be used to liquidate liabilities.

Restricted for Debt Service - This component of net position consists of restricted assets for the principal and interest payments of the bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction - This component of net position consists of restricted assets for the specific purpose of paying for construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted - This component consists of net position that does not meet the definition of net investment in capital assets or restricted for debt service or for construction.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses and changes in net position includes operating revenues, which consist of toll, train fares, concession service, and other, and operating expenses, such as costs of operating toll roads, the mass transportation system, administrative expenses, and depreciation on capital assets; and "non-operating" revenue and expenses, such as gasoline, diesel, oil and petroleum taxes, cigarette taxes, vehicle license fee, interest and investment income, and interest expense. The statement also includes capital contributions and payments to Commonwealth of Puerto Rico. The focus of the statement of revenues, expenses, and changes in net position is the change in net position. This is similar to net income or loss, and portrays the results of operations of the Authority for the entire operating period.

Statement of Cash Flows

The statement of cash flows discloses net cash provided by or used in operating activities, noncapital financing activities, capital and related financing activities and from investing activities. This statement also portrays the financial health of the Authority in that current cash flows are sufficient to pay current liabilities.

Notes to the Financial Statements

The notes to financial statements are an integral part of the basic financial statements and describe the significant accounting policies, related-party transactions, deposits and investments, capital assets, bonds payable, long-term liabilities, retirement plans, derivative financial instruments, and the commitments and contingencies. The reader is encouraged to read the notes in conjunction with the management discussion and analysis and the financial statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

Financial Analysis of the Authority

Statement of Net Position

The following table reflects the condensed net position of the Authority as of June 30, 2016 and 2015:

	2016	2015
Assets		
Current assets	$ 262,423,507	$ 263,320,747
Restricted assets, net of amount presented as current assets	206,059,971	445,471,743
Capital assets, net	10,113,645,874	10,424,915,154
Highways and bridge under concession agreement, net	193,220,632	177,297,739
Other non-current asset	888,902	1,179,136
Total assets	10,776,238,886	11,312,184,519
Deferred outflows of resources	104,284,118	116,947,257
Total assets and deferred outflows of resources	$ 10,880,523,004	$ 11,429,131,776
Liabilities		
Current liabilities	$ 2,501,852,054	$ 2,532,576,145
Long-term liabilities, net	4,606,802,542	4,756,186,952
Total liabilities	7,108,654,596	7,288,763,097
Deferred inflows of resources	1,201,985,548	1,113,928,786
Total liabilities and deferred inflows of resources	8,310,640,144	8,402,691,883
Net position		
Net investment in capital assets	2,810,877,793	3,019,515,602
Restricted for debt service	300,813,458	530,009,800
Restricted for construction	12,076,331	16,772,784
Unrestricted	(553,884,722)	(539,858,293)
Total net position	2,569,882,860	3,026,439,893
Total liabilities, deferred inflow of resources and net position	$ 10,880,523,004	$ 11,429,131,776

Current assets decreased by approximately 0.34% to $262.4 million during the year ended June 30, 2016. The net decrease in current assets of $897.2 thousands is due to a decrease in cash and cash equivalents of $15.0 million, increase in restricted assets classified as current asset of $2.0 million, increase in accounts receivable, net of $10.6 million and an increase in prepaid and other current assets of $1.5 million during the year ended June 30, 2016.

Restricted assets decreased by approximately 54% to $206.1 million at June 30, 2016. Cash and cash equivalents and investments deposited with trustee decreased by approximately $177 million during the year ended June 30, 2016. This decrease is related to the use of the cash and investment with trustee for the payments of bonds and interest during the year. Amount due by the Commonwealth for taxes and other revenues allocated to the Authority decreased by approximately $59 because of a decrease in the taxes and other revenues received from the Commonwealth during the year ended June 30, 2016 as explained in Note 4 to the financial statements. On November 30, 2015 the Governor of Puerto Rico issued Executive Order 2015-046, which directed the Puerto Rico Treasury Department to retain certain revenues previously assigned to the Authority. In addition, amount due by U.S. Federal Government decreased by approximately $4 million during the year ended June 30, 2016. The amount of this receivable depends on the amount allocated to the Authority by the U.S. Federal Government.

During the year ended June 30, 2016, capital assets decreased by 3.0% to approximately $10,113.6 million. This decreased is the net result of an increase in construction in process, roads, bridges and equipment and vehicles of approximately $135.4 million net of an increase in accumulated depreciation of approximately $446.7 million principally due to the depreciation expense for the year.

During the year ended June 30, 2016, highways and bridges under service concession agreement increased by 9.0% to approximately $193.2 million. This increase is due to improvements to toll roads PR-5 and PR-22 amounting to approximately $18.7 million made by the operator net of an increase in related accumulated depreciation of approximately $2.7 million due to the depreciation expense for the year.

Deferred outflows of resources decreased by 10.8% to approximately $104.3 million due to the amortization of the deferred unamortized loss on advance refunding for the year ended June 30, 2016.

During the year ended current liabilities decreased by 1.2% to approximately $2,502 million. Major changes in current liabilities are the following:

Accounts payable and accrued liabilities, including accrued voluntary termination benefits and vacations and sick leave, increased by 0.09% to approximately $200.2 million. These liabilities change depending on the level of operations of the Authority.

Accrued interest payable increased by 14.3% to approximately $430.6 million during the year ended June 30, 2016 principally because the accrued interest on the lines of credit with the Government Development Bank ("GDB") has not been paid. Lines of credit with GDB decreased by approximately $79.3 due to payment made to GDB during the year.

Legal claims, not related to expropriation and related costs, decreased by 32.9% to approximately $19.4 million. Legal claims, related to expropriation of property, decreased 19% to approximately $107.6 million. The legal claims are recorded based on advise from legal counsel.

The current portion of bonds payable increased by 4.0% to $117.9 million. This amount is based on scheduled payments for the next fiscal year.

During the year ended June 30, 2016, long-term liabilities decreased by 3.1% to $4,606.8 million. Bonds payable decreased by approximately $118.1 million due to payments made during the year and reclassification to current portion, net of amortization of bonds premium.

Deferred inflows of resources during the year ended June 30, 2016 increased by 7.9% to $1,202.0 million. On April 19, 2016, the Authority entered into an amendment of the Concessionaire Agreement to extend the original term to ten (10) additional years and to create five (5) bi-directional tolling points on PR-5 and PR-22 highways. The Authority received an upfront concession fee payment of $100 million. In addition, deferred inflows of resources increased by $18.7 million for improvements made by the Operator to the Toll Roads. The increase was reduced by the amortization of the deferred inflows of resources amounting to approximately $30.6 million during the year ended June 30, 2016.

During the year ended June 30, 2016, net position decreased by 15.1% to $2,569.9 million. The decreased is due to a loss of approximately $456.6 million after capital grants and payments to the Commonwealth during the year. The largest portion of the Authority's net position represents its investments in capital assets net of related debt outstanding used to acquire such capital assets.

Condensed Statements of Revenues, Expenses and Changes in Net Position

The following table reflects a condensed summary of the revenues, expenses, and changes in net position for the years ended on June 30, 2016 and 2015:

	2016	2015
Operating revenues	$ 212,080,175	$ 228,949,953
Operating expenses	192,333,620	188,696,701
Depreciation and amortization	451,859,413	448,687,833
Operating loss	(432,112,858)	(408,434,581)
Non-operating revenues/(expenses)		
Non-operating revenues	279,794,437	566,277,810
Non-operating expenses	(350,439,465)	(432,446,896)
Total non-operating revenues/(expenses)	(70,645,028)	133,830,914
Loss before transfers and capital contributions	(502,757,886)	(274,603,667)
Payments and capital contributions, net	46,200,853	323,573,878
Change in net position	(456,557,033)	48,970,211
Net position at beginning of year	3,026,439,893	2,977,469,682
Net position at end of year	$ 2,569,882,860	$ 3,026,439,893

Operating revenues, which consisted of toll fares, train fares, concession service and other revenues decreased by 7.4% to $212.1 million during the year ended June 30, 2016. This decrease is the net of the following:

a. Decrease in other revenues of approximately $6.2 million due to a decrease in toll fines and other revenues of approximately $12.7 million net of a decrease in bad debt expense of approximately $6.6 million.

b. Decrease in concession revenue recorded during the year of approximately $13.0 million.

Operating expenses increased by 1.9% to approximately $192.3 million. During the year ended June 30, 2016 the increase in operating expenses of approximately $3.6 million is the net effect of a decrease in salaries and related benefits of approximately $3.2 million, a decrease in toll highway administration of approximately $24.9 million, a decrease of approximately $3.4 million in the integrated transportation system, a decrease of approximately $3.5 million in utilities, and a decrease in repairs and maintenance of toll and bridges of approximately $2.7 million offset by an increase of approximately $1.0 million in train operating costs and an increase of approximately $36.0 million in other expenses as the result of a reduction of the legal reserve during fiscal year 2015 of approximately $40 million. No such reduction was recorded during fiscal year 2016.

Non-operating revenues, which consist principally of gasoline, oil, diesel and petroleum taxes, cigarettes tax and vehicle license fees allocated by the Commonwealth to the Authority decrease by 54.7% to approximately $279.8 million. On November 30, 2015, the Governor of Puerto Rico issued Executive Order Executive Order 2015-046, which directed the Puerto Rico Treasury Department to retain certain revenues previously assigned to certain public corporations and agencies, including the Authority. These revenues are to be used for other essential services within the Commonwealth. As the result the Authority did not received approximately $314.9 million in taxes during the year ended June 30, 2016.

Other non-operating revenues consists of operating grants and interest income on investments. Operating grants decreased by $10.7 million. The operating grants are received from the U.S. Federal Government to finance the operating costs of the mass rail transportation system. Interest income decreased by approximately $3.3 million due to the decrease in invested cash.

Interest on bonds and lines of credit decreased by approximately $34.2 million principally due to interest incurred on the rate swap agreement.

During the year ended June 30, 2016, management recorded an additional custodial credit risk loss for cash deposited in GDB of approximately $13.6 million. See Note 9 to the financial statements.

The Authority received capital grants from the U.S. Federal Government that are restricted for the construction of capital assets. Such capital grants amounted to approximately $126.0 million during the year ended June 30, 2016. In addition, during the year ended June 30, 2016, the Authority transfer cash to the Commonwealth of Puerto Rico amounting to $79.8 million to pay Commonwealth debts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the Authority had approximately $10,306.9 million in capital assets, net of accumulated depreciation. Capital assets consist of roads, bridges, transportation equipment, buildings, land, construction in progress, equipment and construction in progress and highways and bridge under concession agreement.

At the end of fiscal year 2005, the Authority started operating the mass rail transportation system for the San Juan metropolitan area known as "Tren Urbano". The Authority originally incurred approximately $2.42 billion in costs, of which $685.7 million was paid with federal funds. The Tren Urbano in San Juan consists of approximately 17km. of track running from Bayamón to Santurce. Maintenance services are partially funded with capital contributions from the Federal Transit Administration (FTA). Total capital contributions received from FTA used for maintenance services amounted to approximately $24.4 million during the year June 30, 2016.

On August 3, 2014, the Governor of the Commonwealth signed the Law No. 123-2014 to create the Integrated Transportation Authority of Puerto Rico ("ATI") to establish their purposes, duties, powers and authorities and to authorize the Authority to transfer the Urban Train System during the fiscal year 2016. According to this Act, ATI will be in charge of the Metropolitan Bus Authority and the Authority of Maritime Transportation. The Authority does not currently contemplate that conditions for the completion of such transfer will be satisfied in the foreseeable future.

On September 22, 2011, the Authority entered into a toll road service concession agreement with "Autopistas Metropolitanas de Puerto Rico, LLC" (the "Operator"), in which the Authority granted to the Operator the right to finance, operate and maintain the PR-22 and PR-5 highways for a period of 40 years. During the 40-year term, the Operator will have the right to charge and collect the tolls imposed on these highways as more fully described in Note 11 to the financial statements.

On December 20, 1992, the Authority and Autopistas entered into a service concession agreement (the Concession Agreement), amended in 1992, 2004 and 2009, for the design, construction, operation and maintenance of the Bridge, a toll bridge, which crosses the San José Lagoon between the municipalities of San Juan and Carolina. The Operator designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994 as more fully described in Note 11 to the financial statements.

The Authority entered into a System and Test Track Turnkey Contract (STTT Contract) with Siemens Transportation Partnership Puerto Rico, S.E., Juan R. Requena y Asociados, and Alternate Concepts, Inc. (all together known as "Siemens") for the purpose of operating and maintaining the Tren Urbano. Siemens is responsible for operating and maintaining Tren Urbano, and is entitled to receive for such services an annual base total amounts compensation, subject to inflation adjustment for changes in cost of labor and materials. The base compensation amounts to approximately $48 million per year and does not include the costs of insurance and electricity, which are paid by the Authority.

Debt Administration

As of June 30, 2016, the principal amount of the Highways and Senior Transportation, and Grant Anticipation Revenues Bonds outstanding, net of unamortized discounts amounted to approximately $4,540.1 million. These bonds were insured and rated Ca by Moody's Investors Service (Moody's), and CCC- by Standard & Poor's (S&P) for the other bonds. The remaining uninsured bonds are rated Ca by Moody's and CCC- by S&P.

The Authority's bond sales must be approved by the Board of Directors that is composed by seven members. The Authority must comply with certain rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission relating to such sales.

The Authority's has approximately $1,733.7 million of lines of credit outstanding with the Government Development Bank that are in default and remains in default at the date of the financial statements, because of lack of payment.

As disclosed in Note 22 to the financial statements, the Authority defaulted on certain principal and interest payments due on its bonds payable. Because of the Authority's liquidity problems as discussed in Note 4 to the financial statements future defaults are expected.

CURRENTLY KNOWN FACTS

GOING CONCERN

The Authority's financial statements as of and for the year ended June 30, 2016 has been prepared assuming that the Authority will continue as a going concern and therefore assumes the liquidation of assets and liabilities in the normal course of the Authority's operations and does not includes adjustments that might be required if the Authority is unable to continue as a going concern.

As explained in Note 4 to the financial statements, due to the number of uncertainties facing the Authority, lack of sufficient resources to pay its liabilities as they become due, the proceedings initiated under Chapter III of PROMESA as explained in Notes 3 and 4 to the financial statements have led management to conclude that there is substantial doubt as to the ability of the Authority to continue as a going concern.

HURRICANES IRMA AND MARIA

During September 2017, hurricanes Irma and Maria struck the island of Puerto Rico causing widespread damages throughout the island. Management is in the process of determining the amount of damages suffered by the Authority's roads, bridges, mass transportation system and other capital assets. Although management has been unable to determine the amount of damages at the date of the financial statements, it expects that the amount will be significant.

In addition, hurricane Maria caused an interruption in the Authority's electronic toll system and in the operation of the urban train resulting in a loss of revenue. The Authority has insurance policies in force at the time of both hurricanes and expects to recover part of the losses incurred from the insurance companies.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our bondholders, patrons, and other interest parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have question or need additional financial information, contact the Puerto Rico Highways and Transportation Authority, Finance Area, P.O. Box 42007, San Juan, Puerto Rico 00940-2007.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
JUNE 30, 2016

	2016
ASSETS	
Current assets:	
Cash and cash equivalents	$ 13,105,521
Restricted cash and cash equivalents with trustee	221,594,022
Accounts receivable, net	21,551,497
Prepaid expenses and other assets	6,172,467
Total current assets	262,423,507
Restricted assets:	
Cash and cash equivalents	1,547,675
Cash and cash equivalents and investments with trustee, net of amount presented as current assets	178,833,158
Receivables:	
U.S. Federal government	23,186,513
Commonwealth of Puerto Rico	1,196,424
Accrued interest and other	1,296,201
Total restricted assets	206,059,971
Other Non-current assets:	
Capital assets, net	10,113,645,874
Highways and bridge under concession arrangement, net	193,220,632
Other Postemployment benefit asset	888,902
Total other non-current assets	10,307,755,408
Total assets	10,776,238,886
DEFERRED OUTFLOWS OF RESOURCES -	
Deferred loss on advance refunding, net	104,284,118
Total assets and deferred outflows of resources	$ 10,880,523,004

Continues

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF NET POSITION
JUNE 30, 2016

Continued

	2016
LIABILITIES	
Current liabilities:	
Checks issued over bank balance	$ 49,469
Accounts payable	42,738,437
Accrued and other liabilities	30,925,798
Accounts and subcontractors payable	126,539,386
Accrued interest payable on lines of credit	326,951,087
Current portion of accrued legal claims	19,356,355
Nonrevolving lines of credit	1,733,697,500
Liabilities payable with restricted cash and cash equivalents:	
Current portion of bonds payable	117,940,000
Accrued interest on bonds payable	103,654,022
Total current liabilities	2,501,852,054
Non-current liabilities:	
Accrued legal claims	107,648,101
Accrued vacations and sick leave	15,661,618
Voluntary termination incentive plan liability	61,373,462
Bonds payable, net	4,422,119,361
Total non-current liabilities	4,606,802,542
Total liabilities	7,108,654,596
DEFERRED INFLOWS OF RESOURCES -	
Deferred inflows of resources -service concession arrangements	1,201,985,548
NET POSITION:	
Net investment in capital assets	2,810,877,793
Restricted for debt service	300,813,458
Restricted for construction	12,076,331
Deficit	(553,884,722)
Total net position	2,569,882,860
Total liabilities, deferred inflows of resources and net position	$10,880,523,004

The accompanying notes are an integral part of these financial statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	2016
OPERATING REVENUES:	
Toll and train fares	$ 144,912,274
Other income	36,570,987
Concession service	30,596,914
Total operating revenues	212,080,175
OPERATING EXPENSES:	
Salaries and related benefits	25,333,167
Post-employment benefits	3,015,312
Toll highways administration and maintenance	23,624,764
Train operating and maintenance costs	52,864,569
Integrated transportation system	14,876,786
Repairs and maintenance of roads and bridges	45,737,016
Utilities	9,093,428
Other	17,788,578
Total operating expenses	192,333,620
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	19,746,555
DEPRECIATION AND AMORTIZATION	451,859,413
OPERATING LOSS	(432,112,858)
NON-OPERATING REVENUES (EXPENSES):	
Gasoline, diesel, oil and petroleum tax revenues	179,060,430
Cigarettes taxes	8,954,083
Vehicles license fee	46,474,705
Other revenues	189,957
Operating grants	24,415,601
Interest on bonds and lines of credit	(336,799,055)
Investment income	8,487,173
Income from cancellation of debt service reserve forward agreement	12,079,000
Net change in fair value of investments	133,488
Custodial credit risk loss on deposits with governmental bank	(13,640,410)
Total non-operating revenues (expenses), net	(70,645,028)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(502,757,886)
PAYMENTS TO COMMONWEALTH OF PUERTO RICO	(79,800,000)
CAPITAL CONTRIBUTIONS	126,000,853
CHANGE IN NET POSITION	(456,557,033)
NET POSITION AT BEGINNING OF YEAR	3,026,439,893
NET POSITION AT END OF YEAR	$ 2,569,882,860

The accompanying notes are an integral part of these financial statements.

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	2016
OPERATING ACTIVITIES:	
Receipts from toll and train fares	$ 135,091,473
Receipts from other sources	24,878,922
Payments to employees and related benefits	(29,102,036)
Payments to suppliers for goods and services	(187,269,829)
Net cash used in operating activities	(56,401,470)
NONCAPITAL FINANCING ACTIVITIES:	
Net change in checks issued over bank balance	(698,957)
Operating grants received	25,349,578
Receipt from cancellation of debt service forward agreement	12,079,000
Payments to Commonwealth of Puerto Rico	(79,800,000)
Net cash used in noncapital financing activities	(43,070,379)
CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital grants received	129,433,236
Acquisition and construction of capital assets, net of capitalized interest	(153,564,260)
Receipts from gasoline, petroleum, cigarettes tax and vehicle license fees	293,090,607
Payments of lines of credit	(79,281,993)
Advances from service concession arrangements	100,000,000
Payments of bonds	(113,355,000)
Interest paid	(274,889,918)
Net cash used in capital and related financing activities	(98,567,328)
INVESTING ACTIVITIES:	
Deposits of cash and investments with trustee	344,501,911
Withdrawal of cash and investments with trustee	(171,546,028)
Investment and interest income received	7,788,355
Net cash provided by investing activities	180,744,238
NET DECREASE IN CASH AND CASH EQUIVALENTS	(17,294,939)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	31,948,135
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,653,196

Continued

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

Continues

	2016
RECONCILIATION TO CASH AND CASH EQUIVALENTS PRESENTED IN THE STATEMENT OF NET POSITION:	
Cash and cash equivalents	$ 13,105,521
Cash and cash equivalents - restricted	1,547,675
Total	$ 14,653,196
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS USED IN OPERATING ACTIVITIES:	
Operating loss	$(432,112,858)
Adjustments to reconcile operating loss to net cash flows used in operating activities:	
Depreciation and amortization	451,859,413
Revenue from concession agreements	(30,596,914)
Custodial credit risk loss on deposits with govermental banks	(13,640,410)
Other non-operating revenues	189,957
Net change in operating assets and liabilities:	
Accounts receivable	(10,588,865)
Prepaid expenses and other assets	810,810
Accounts payable	(14,315,260)
Accrued liabilities	3,401,799
Accrued legal claims	(9,490,004)
Accrued vacations and sick leave	3,405,831
Accrued voluntary incentive plan liability	(5,324,969)
Net cash flows used in operating activities	$ (56,401,470)
SUPPLEMENTAL CASH FLOWS INFORMATION:	
Noncash transactions:	
Improvement to roads under concession arrangements	$ 18,653,676
Accretion of capital appreciation bonds	$ 1,130,772
Revenue from service concession arrangements	$ 30,596,914
Change in fair value of investments	$ 133,488

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION

Puerto Rico Highways and Transportation Authority (the "Authority") is a public corporation and instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth"), created by Act No. 74 of June 23, 1965, as amended, to design, construct and administer toll roads and highways, and other facilities for the movement of persons, vehicles and vessels, and for the planning, promotion and feasibility of mass transportation systems. The Authority is a component unit of the Commonwealth and accordingly is included in the basic financial statements of the Commonwealth. The powers are exercised by a Board of Directors that is composed by seven members which have the Authority to approve, amend, and revoke any regulations to perform its duties and to control the capital and operational budget.

The financial statements presented herein relate solely to the financial position and results of operations of the Authority and are not intended to present the financial position of the Commonwealth or the results of its operations or its cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America, as promulgated in pronouncements of the Governmental Accounting Standards Board (GASB).

The Authority's operations are accounted for as a proprietary fund (enterprise fund) using the flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the Authority's operations are included on the statement of net position. Revenue is recognized in the period in which it is earned and expenses are recognized in the period in which incurred.

The Authority accounts for its operations and financing in a manner similar to private business enterprises; the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Such accounts and these financial statements have been prepared on the basis that the Authority will continue as a going concern and as a legally separate governmental entity and component unit of the Commonwealth.

Cash and Cash Equivalents

The Authority considers as cash and cash equivalents all highly liquid investments with original maturities at the date of purchase of three months or less.

Investments

The Authority follows reports investments on the statement of net position at fair value and investment income, including changes in the fair value of investments, are reported as non-operating revenue/(expense) in the statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values at June 30, 2016.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible based on evaluations of collectability of accounts receivable and prior credit loss experience. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the existing accounts receivable and related allowance may change in the future.

Capital Assets

Cost basis - Capital assets are recorded at historical cost or fair value for donated assets. The cost of property and equipment includes costs for infrastructure assets (rights-of-way and bridge substructures and highways and bridges), toll facilities, equipment and other related costs (including software), buildings and furniture and equipment. Highways and bridge substructures include road sub-base, grading, land clearing, embankments, and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees and administrative and general expenses paid from construction funds.

Capitalization Policy - Infrastructure capital assets (road, bridges, highways, transportation equipment, etc.) are defined by the Authority as assets with an initial, individual cost of more than $500,000 and an estimated useful life of more than one year. Other capital assets, such as equipment, vehicles, etc. are defined by the Authority as assets with an initial individual cost of more than $100 and an estimated life of more than three years.

Costs to acquire additional capital assets, which replace existing assets or otherwise extend their useful lives, are generally capitalized.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are expensed as incurred.

Interest cost is capitalized as part of the historical cost of acquiring or constructing certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on proceeds of tax-exempt borrowings arrangements restricted for the acquisition of qualifying assets is offset against interest cost to determine the net amount to be capitalized. Interest cost is not capitalized on costs paid with the proceeds of grants or donations restricted solely for construction.

Depreciation of Capital Assets - Depreciation is provided using the straight-line method over an estimated useful life of 40 years for roads and highways, 50 years for bridges and transportation system (including transportation equipment and facilities) and 10 years for equipment, vehicles and other.

Impairment of Capital Assets - The Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage among others.

The Authority evaluated its capital assets and recorded an impairment loss of $14 million in the construction in progress account during the year ended June 30, 2016, presented in the repairs and maintenance of roads and bridges line item of these financial statements.

Service Concession Arrangements

The Authority has entered into several service concession arrangements under which it has transferred the administration and operation of certain infrastructure assets to private organizations, in an exchange for concession fees. Amounts collected in advance are reported as deferred inflows of resources and is amortized into concession fee revenue in a systematic and rational manner over the term of the arrangement. The transferred asset is maintained in the Authority's financial statements. Improvements and betterments performed by the Operator to the transferred assets are capitalized by the Authority. See Note 11 for additional detailed information of the service concession arrangements in force as of June 30, 2016.

Claims and Judgments

The estimated amount of the liability for claims and judgments is recorded on the accompanying statement of net position based on the Authority's evaluation of the probability of an unfavorable outcome in the litigation of such claims and judgments. The Authority consults with legal counsel upon determining whether an unfavorable outcome is expected. Because of uncertainties inherent in the estimation process, management's estimate of the liability for claims and judgments may change in the future.

Vacation and Sick Leave

Employees earn annual vacation leave at the rate of 30 days per year up to a maximum permissible accumulation of 30 days for union employees and 60 days for management personnel. Employees accumulate sick leave at the rate of 18 days per year. Sick leave is only payable if the regular employee resigns and has more than 10 years of employment, or retires and takes a pension. Maximum permissible accumulation for sick leave is 90 days for all employees, and the excess is paid within the next year. The Authority records as a liability and as an expense the vested accumulated vacation and sick leave as benefits accrue to employees.

The cost of vacation and sick leave expected to be paid in the next twelve months is classified as current and accrued liabilities while amounts expected to be paid after twelve months are classified as noncurrent liabilities.

Deferred Outflow of Resources - Deferred Loss on Advance Refunding

Losses resulting from current or advance refunding of debt are deferred and amortized over the shorter of the life of the new debt and the remaining life of old debt. The amount amortized is reported as a component of interest expense.

Bond Premiums (Discounts) and Bond Issuance Costs

Bond issuance costs are reported as expense during the year they are incurred.

Amortization related to bond premiums (discounts) were approximately $10.5 million for the year ended June 30, 2016 and are included as a component of interest expense in the accompanying statements of revenues, expenses and changes in net position.

Net Position

Net position is classified in the following four components in the accompanying statements of net position:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount are not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted for Debt Service - Consists of restricted assets for payment of principal and interest related to bonds payable. This restriction is imposed by the bondholders through debt covenants.

Restricted for Construction - Consists of restricted assets for the specific purpose of financing the construction projects. This restriction is imposed by the grantors and contributors, as well as the bondholders through debt covenants.

Unrestricted - Unrestricted net position consists of net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investments in capital assets or the restricted component of net position. As of June 30, 2016, the Authority has an accumulated deficit of $553.9 million. See Note 4 regarding the Authority's ability to continue as a going concern.

Revenue Recognition

The Authority distinguishes operating revenues and expenses from non-operating items. Revenues associated with toll and train fares are recorded as operating revenues when cash is received, except for prepaid amounts which are recognized when earned. Expenses related to the administration and maintenance of toll highways and transportation system, repair and maintenance of roads and bridges, and administrative expenses are recorded as operating expenses. All other revenues and expenses are considered non-operating.

Non-operating revenues consist principally of gasoline, diesel, petroleum and cigarettes taxes and vehicle license fees which are allocated to the Authority by the Commonwealth as approved by law to finance the acquisition and construction of capital assets and for the payment of the related debt. These taxes and fees are recorded as non-operating revenues when the Commonwealth collects such taxes and informs the Authority.

Contributions

Contributions are funds assigned by the federal and local governments, agencies and/or private companies such as Federal Highway Administration ("FHWA") and Federal Transit Administration ("FTA") to the Authority for the exclusive purpose of the construction of specific projects or infrastructure repairs and maintenance. Capital contributions of the Authority are reported as contributions as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.*

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Risk Financing

The Authority carries commercial insurance to cover casualty, theft, claims and other losses. The current insurance policies have not been cancelled or terminated. The Authority has not settled any claims in excess of its insurance coverage for the year ended June 30, 2016.

New Accounting Pronouncements

GASB has issued the following statements that the Authority has not yet adopted:

GASB Statement Number	GASB Statement Name	Adoption Required in Fiscal Year Ending June 30
74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	2017
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	2018
77	Tax Abatement Disclosures	2017
78	Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans	2017
80	Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14	2017
81	Irrevocable Split-Interest Agreements	2018
82	Pension Issues - an amendment of GASB Statement No. 67, No. 68 and No. 73	2018
83	Certain Assets Retirements Obligations	2019
84	Fiduciaries Activities	2020
85	Omnibus	2018
86	Certain Debt Extinguishment Issues	2018
87	Leases	2021

The impact of these statements has not yet been determined by the Authority.

Effects of New Accounting Standards

The following GASB statements were effective for fiscal year 2016:

On July 1, 2015, the Authority adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application.* This statement addresses accounting and financial reporting issues related to fair value measurements. The statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. In adopting this statement, the Authority has revised the note disclosure to reflect the level of fair value hierarchy for investments, as well as indicated the fair value methodology.

On July 1, 2015, the Authority adopted the provisions of GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this statement is to identify the hierarchy of generally accepted accounting principles. This statement reduces the generally accepted accounting principles ("GAAP") hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified with a source of authoritative GAAP.

3. THE PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

The Puerto Rico Oversight, Management, and Economic Stability Act, 48 U.S.C. §§ 2101, *et seq.* (PROMESA), was enacted into federal law on June 30, 2016. PROMESA includes a variety of provisions applicable to Puerto Rico, its instrumentalities and their liabilities and operations

The following is a summary of PROMESA, which is intended as a broad overview of primary provisions:

Oversight Board: PROMESA establishes a seven member Oversight Board, the members of which have been appointed by the President of the United States from lists of candidates designated by Congressional leaders. The Oversight Board's authority is set forth in PROMESA. Key Oversight Board powers include, but are not limited to, the power to designate instrumentalities as "covered" instrumentalities subject to PROMESA; holding hearings and issuing subpoenas; certification of fiscal plans; approval of budgets; review of activities to ensure compliance with the fiscal plan; approve the issuance of debt; intervene in litigation against the Commonwealth government; analyze pensions and pension liability; initiate judicial proceedings to adjust debts under Title III of PROMESA; and approve voluntary modification of debts under Title VI of PROMESA. PROMESA establishes the Oversight Board as an autonomous entity within the Commonwealth government. The Oversight Board can hire officers, professionals and legal counsel.

Fiscal Plan and Budget: PROMESA requires the Commonwealth and covered instrumentalities to develop and comply with a fiscal plan. PROMESA establishes several requirements pertaining to the fiscal plans. Among other requirements, fiscal plans must: include revenue and expenditure estimates; ensure funding of essential public services; adequately fund public pension systems; provide for the elimination of structural deficits; include a debt sustainability analysis; improve fiscal governance, accountability, and internal controls; provide for capital expenditures and investments necessary to promote economic growth; and respect lawful priorities or lawful liens in effect prior to PROMESA's enactment.

Each fiscal plan is also required to set forth methods for the Commonwealth or instrumentality to access the capital markets. The Governor may develop the fiscal plan and submit it for the Oversight Board's approval, the Oversight Board may develop its own fiscal plan if the Governor's plan is not acceptable to the oversight board, or the Governor and the Oversight Board can jointly develop the fiscal plan.

PROMESA further specifies that no budget can be submitted by the Commonwealth's governor to its legislature unless the Oversight Board has approved a fiscal plan and the budget is consistent with the fiscal plan (and, similar to fiscal plans, the Oversight Board can submit its own budget if the governor's budget is not acceptable in the sole discretion of the Oversight Board).

A fiscal plan is also required to comply with Puerto Rico law and to maintain valid liens. PROMESA further specifics that no budget can be submitted by the Commonwealth's governor to its legislature unless the Oversight Board has approved a fiscal plan and the budget is consistent with the fiscal plan (and, similar to fiscal plans, the Oversight Board can submit its own budget if the governor's budget is not acceptable in the sole discretion of the Oversight Board).

Automatic Stay: Upon the enactment of PROMESA, effective July 1, 2016 a temporary stay or statutory injunction went into effect under Title IV thereof which stays, among other things, all actions and litigation against the Commonwealth and its instrumentalities to collect or enforce liabilities or claims and actions to possess or control their property. The stay has certain very limited exceptions, but generally all enforcement actions against the Commonwealth and its instrumentalities, or other actions to control their property, are stayed through the temporary stay period. The automatic stay was in effect until May 2017.

In addition, the initiation of proceedings under Title III of PROMESA, triggers application of the automatic stay under Section 362 of the United States Bankruptcy Code, as incorporated by reference into Title III of PROMESA, which similarly stays actions and litigation or attempts to collect or enforce liabilities or of any Title III debtor.

Debt Adjustment: Title III of PROMESA allows the Oversight Board, as representative of the Commonwealth or a covered instrumentality, to initiate debt adjustment proceedings in the United States District Court for the District of Puerto Rico. Title III incorporates by reference numerous provisions of the Bankruptcy Code, including many from Chapter 9 (which governs bankruptcy proceedings of a municipality).

A debt adjustment proceeding of the Commonwealth or a covered instrumentality under Title III of PROMESA would also include (like a reorganization proceeding of a municipal debtor under Chapter 9 of the Bankruptcy Code) (i) the imposition of the automatic stay, (ii) the ability of a debtor to generally govern its operations and engage in postpetition financing and (iii) the ability of the debtor to exercise avoidance powers.

Before initiating a Title III proceeding, the Oversight Board must certify, among other things, that the entity has engaged in goodfaith efforts to enter into voluntary agreements to restructure its debts, has an approved fiscal plan and has no "qualifying modification" of its bond debt (as addressed further below based on the collective creditor action provisions of PROMESA).

The Oversight Board is the only entity with the authority to submit a plan of adjustment to the court for confirmation. PROMESA requires that a plan of adjustment, among other things, be consistent with PROMESA and the debtor's fiscal plan, and that the plan be feasible and in the best interests of the creditors, considering what the creditors could otherwise recover under Puerto Rico law.

As discussed in Note 22, on May 21, 2017, as representative of the Authority, filed a petition under Title III.

4. GOING CONCERN

The discussion in the following paragraphs regarding the Authority's financial and liquidity risks provides the necessary background and support for management's evaluation as to whether there is substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the date of the financial statements or for an extended period if there is currently known information that may raise substantial doubt shortly thereafter. GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance, establishes that the continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Indicators such as negative trends in operating losses and negative cash flows, possible financial difficulties such as nonpayment or default of debt

and/or restructuring or noncompliance with capital or reserve requirements, and internal or external matters impacting the governmental entity's ability to meet its obligations as they become due, are factors that are considered in this evaluation. The Authority faces significant risks and uncertainties, including liquidity risk, which is the risk of not having sufficient liquid financial resources to meet obligations when they come due.

The risks and uncertainties facing the Authority together with other factors further described below, have led management to conclude that there is substantial doubt as to the ability of the Authority to continue as a going concern in accordance with GASB Statement No. 56.

The accompanying financial statements has been prepared assuming that the Authority will continue as a going concern and therefore assumes the liquidation of assets and liabilities in the normal course of the Authority's operations and does not include adjustments that might be required if the Authority is unable to continue as a going concern.

The Authority has experienced significant recurring losses from operations and faces many business challenges that have been exacerbated by the Commonwealth's economic recession. Its principal challenges, some of which are interrelated, are: (i) reduction of operating costs; (ii) maximize its revenues; and (iii) improving its liquidity.

During the year ended June 30, 2016 the Authority incurred in a loss before capital grants and transfers of approximately $503 million, its current liabilities exceeds its current assets by approximately $2,239.4 million at June 30, 2016 and at such date the Authority has an accumulated deficit of approximately $553.9 million.

The Authority borrowed more than $2 billion dollars from the GDB to finance infrastructure projects and pay operational expenses. These borrowings, in the form of lines of credit, had no source of repayment. The outstanding balance of these lines of credit as of June 30, 2016 amounts to $1.7 billion. These lines of credit expired in January 2016 and are currently in default.

The Commonwealth had previously assigned by law to the Authority certain taxes and other revenues. On November 30, 2015, the Governor of Puerto Rico issued Executive Order 2015-046, which directed the Puerto Rico Treasury Department to retain certain gasoline, oil, diesel, and petroleum taxes that the Commonwealth had previously assigned to the Authority. These revenues are to be used for other essential services within the Commonwealth of Puerto Rico. Executive Order 2015-046 had a significant negative effect on the Authority's liquidity. During the year ended June 30, 2016 the Authority did not receive taxes amounting to approximately $314.9 million. There has been no indication that the allocation of gasoline, oil, diesel, and petroleum taxes will resume.

Subsequent to June 30, 2016, the Authority defaulted in the debt service payments of certain bonds as explained in Note 22 to the financial statements. Because the Authority had accumulated cash in the bonds sinking fund accounts, it was able to make certain bond service payments due on July 1, 2016 and January 1, 2017. However, without the taxes and other revenues allocated by the Commonwealth explained above, the Authority is unable to deposit additional monies in the bond payment reserve accounts and without additional deposits the ability to continue making the schedule payments on the bonds issued is diminished.

The Authority had also been highly reliant on the GDB, for liquidity and financial management support.

GDB traditionally served as a source of emergency liquidity to bridge the Commonwealth and its component units deficits, but now is also experiencing its own liquidity constraints and is thus unable to continue serving in such role. Loans granted by GDB to the Commonwealth and its component units constitute a significant portion of GDB's assets. A significant portion of these loans are payable from budgetary appropriations, which have been significantly reduced in recent years. The GDB's liquidity and financial condition depends on the repayment of loans by the Commonwealth and its component units. GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due.

On May 17, 2016 the Governor of Puerto Rico Signed Executive Order 2016-18 (EO 18) and on June 30, 2016, the Governor of Puerto Rico signed Executive Order No. OE2016030 (EO 30) and Executive Order No. OE2016031 (OE 31). Collectively, these orders declared the Commonwealth and several of its instrumentalities, including the Authority, to be in a state of emergency. The orders additionally authorized the Authority to apply toll revenues to fund essential services and suspended transfers to the fiscal agent under the Resolution 1968-18 dated June 13, 1968, as amended, and Resolution 1998-06 dated February 26, 1998, as amended. In addition, EO31 suspends the transfer of pledged revenues under Acts 30 & 31 to the GDB to the extent that those revenues are needed by the Authority to finance its operational expenses and/or pay for essential services. EO 31 does not suspend the payment obligations of the Authority with respect to any other obligation.

The Authority does not currently have sufficient funds available to fully repay its various obligations as they come due or that are currently in default, and is working on extending the due date of the obligations or obtaining new financing to provide relief and/or funds to repay the existing amounts of principal and interest or bring the outstanding balances current at the various due dates as well as to continue operate and to finance capital improvement projects. Additionally, significant support and funding for obligations of the Authority has previously been provided by the Commonwealth and sources from other entities that are part of the Commonwealth, such as the GDB. The Commonwealth and such entities are experiencing financial difficulties and may be unable to continue to extend, refinance or otherwise provide the necessary liquidity to the Authority as and when needed. As such, current defaults may not be cured and future defaults on the Authority's obligations may not be avoided. Management has plans to address its liquidity situation and continue its services. However, there can be no assurance that the Commonwealth will continue to provide adequate support or continue to allow the Authority to operate as a separate entity or that the affiliated or unaffiliated lenders will be able and willing to refinance or modify the terms of the Authority's obligations. As such, there can be no assurance that management's current plans to repay or refinance the obligations or extend their terms will be achieved or that services will not have to be terminated, curtailed or modified.

On May 21, 2017, the Oversight Board, as the Authority's representative, filed a petition for relief under Title III of PROMESA. At the time of the petition, it is estimated that Authority's debt amounted to approximately $4.291 billion, excluding approximately $1.733 billion in GDB bonds. Title III is an incourt debt restructuring process similar to Chapter 9 of the U.S. Bankruptcy Code. Puerto Rico is not eligible to file a petition under Chapter 9. As explained above, the Title III proceeding triggers an automatic stay of litigation from creditors against the Authority.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2016 , consisted of:

	2016
Cash on hand and in banks	$ 11,516,911
Certificates of deposits	1,588,610
Total	$ 13,105,521

Cash and cash equivalents includes certificate of deposits with the Economic Development Bank (EDB) in the amount of $1.6 million, net of a custodial credit risk loss of approximately $5.7 million recorded during the year ended June 30, 2016. The certificate of deposits is non-collateralized and, therefore, is subject to custodial credit risk. The amount outstanding at June 30, 2016 was received by the Authority subsequent to year end.

In addition, the Authority has deposits with the GDB amounting to approximately $54.4 million for which an custodial credit risk loss was recorded in current and prior year for such amount as further described in Note 9 to the financial statements.

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable at June 30, 2016 consisted of:

	2016
Government and other agencies	$ 55,523,494
Rent receivables	4,915,332
Repairs to highways recoverable from users	1,548,612
Department of Treasury of Commonwealth of Puerto Rico	12,000,000
Other	9,492,207
Total	83,479,645
Less allowance for doubtful accounts	(61,928,148)
Accounts receivable, net	$ 21,551,497

Receivables from governmental entities consist of charges made to various government agencies, public corporations and municipalities of the Commonwealth. Most of these amounts are significantly overdue and are included in the allowance for doubtful accounts at June 30, 2016. The amount due by the Treasury Department of the Commonwealth of Puerto Rico was collected subsequent to June 30, 2016.

7. RESTRICTED CASH, CASH EQUIVALENTS, AND INVESTMENTS WITH TRUSTEE

Restricted cash, cash equivalents and investments with trustee at June 30, 2016, consisted of:

	2016
Cash on hand and in banks	$ 1,547,675
Cash equivalents and investments with trustee:	
Cash equivalents - money market accounts	$ 141,928,470
Mutual funds	98,356,529
U.S. Treasury Bill	2,990,611
Guaranteed investment contracts	91,558,202
US Government securities	26,725,509
Mortgage backed securities	25,589,000
Corporate bond	13,278,859
Total cash equivalents and investments with trustee	400,427,180
Less amount presented as current assets	221,594,022
Amount presented as non-current asset	$ 178,833,158

At June 30, 2016, the above amounts were restricted to comply with long-term principal and interest debt service requirements or for construction of transportation facilities. These restricted assets are held by the Fiscal Agent under the Bonds Resolutions in the following funds and accounts:

1968 Reserve Account - Reserve for payment of principal of and interest on Highway Revenue Bonds in the event moneys in Bond Service Account or Redemption Account under Resolution 1968-18 are insufficient for such purpose.

1968 Bond Service Account and Redemption Account (Sinking Fund) under Resolution 1968-18)-Current year requirements for principal and interest on Highway Revenue Bonds.

1998 Senior Reserve Account - Reserve for payment of principal and interest on Senior Transportation Revenue Bonds in the event moneys in Senior Bond Service Account or Senior Bond Redemption Account under Resolution 1998-06 are insufficient for such purpose.

1998 Senior Bond Service Account and Senior Bond Redemption Account (Senior Bond Sinking Fund under Resolution 1998-06) - Current year requirements for principal and interest on Senior Transportation Revenue Bonds.

1998 Subordinated Reserve Fund - Reserve for payment of principal of and interest on Subordinated Transportation Revenue Bonds in the event moneys in Subordinated Bond Service Account or Subordinated Bond Redemption Account under Resolution 1998-06 are insufficient for such purpose.

1998 Subordinated Bond Service Account and Subordinated Bond Redemption Account (Subordinated Bond Sinking Fund under Resolution 1998-06) - Current year requirements for principal of and interest on Subordinated Transportation Revenue Bonds.

1998 Construction Fund - Special fund created by the Resolution 1998-06. The proceeds of any Transportation Revenue Bonds issued for the purpose of paying the cost of acquiring or constructing transportation facilities, together with the money received from any other source for such purpose, except proceeds which are (I) applied to the repayment of advances, (ii) deposited in the 1998 Senior Bond Reserve Account or 1998 Subordinated Bond Reserve Fund, (iii) deposited in the 1998 Senior or Subordinated Bond Service Account as capitalized interest or (iv) used for the payment of financing expenses, shall be deposited in the 1998.

2004 Grant Anticipation Bond Reserve Account - Reserve for payment of principal and interest on 2004 Grant Anticipation Bonds in the event insufficient funds for such purpose are available in the Bond Payment Fund.

2014 Bond Anticipation Note Reserve Account - Reserve for payment of principal and interest on 2014 Bond Anticipation Notes in the event insufficient funds for such purpose are available in the Bond Payment Fund.

At June 30, 2016, amounts held by Trustee in the following accounts amounted to (in thousands):

		2016
1968 Reserve Account	$	75,109
1968 Sinking Fund		38,516
1998 Senior Reserve Account		249,054
1998 Senior Sinking Fund		6,624
1998 Subordinated Reserve Fund		26,536
1998 Subordinated Sinking Fund		2,279
2004 Construction Fund		2,309
Total	$	400,427

8. FAIR VALUE MEASUREMENTS

In 2016, the Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The Authority categorizes its fair value measurements within the fair value hierarchy established by U.S. generally accepted accounting principles. GASB Statement No. 72 sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has ability to access.

Level 2 - Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in active markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes observable requires judgment by the Authority's management. Authority's management considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to Authority's management perceived risk of that investment.

The Authority has the following recurring fair value measurements as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Debt Securities:				
U.S. treasury bill	$ 2,990,611	$ -	$ -	$ 2,990,611
U.S government obligations	-	26,725,509	-	26,725,509
Corporate bond	-	13,278,859	-	13,278,859
Mortgage backed securities	-	25,589,000	-	25,589,000
Total	$ 2,990,611	$ 65,593,368	$ -	68,583,979
Investments valued at net asset value of amortized cost:				
Cash equivalent - money market fund				141,928,470
Mutual funds				98,356,529
Guaranteed investment contracts				91,558,202
Total				$ 400,427,180

When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy.

For investments classified within Level 2 of the fair value hierarchy, the Authority's custodians generally use a multidimensional relational model. Inputs to their pricing models are based on observable market inputs in active markets. The inputs to the pricing models are typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

The Authority does not have any investments that are measured using Level 3 inputs.

9. DEPOSITS AND INVESTMENTS

The Authority is restricted by law to deposit funds only in institutions approved by the Puerto Rico Treasury Department, and such deposits are required to be kept in separate accounts in the name of the Authority. Resolutions 1968-18, 1998-06 and 2004-18 (the Bond Resolutions) require that moneys in the debt service funds be held by Bank of New York (the Fiscal Agent) in trust and applied as provided in the Bond Resolutions.

Pursuant to the Investment Guidelines for the GDB, the Authority may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances, or in pools of obligations of the municipalities of Puerto Rico, among others. Monies in the sinking funds can only be invested in direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

Custodial Credit Risk - Deposits

For deposits, custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. Deposits maintained in GDB or EDB are exempt from collateral requirement established by the Commonwealth and thus represents custodial credit risk because in the event of GDB's or EDB's failure, the Authority may not be able to recover the deposits.

All moneys deposited with the Trustee or any other depository institution hereunder in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency are continuously secured by lodging with a bank or trust company approved by the Authority and by the Trustee as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations or other marketable securities.

At June 30, 2016, the Authority was exposed to the following custodial credit risk arising from the balance of deposits maintained in governmental and commercial banks as follows:

	2016			
	Unrestricted		Restricted	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Commercial banks	$ 11,580,728	$ 12,327,892	$ 1,547,675	$ 1,547,675
Governmental banks	1,524,793	14,180,070	-	47,544,991
	$ 13,105,521	$ 26,507,962	$ 1,547,675	$ 49,092,666

Custodial Credit Risk Loss on Deposits with Government Development Bank (GDB) and Economic Development Bank (EDB)

GDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due, as further described in Note 4 to the financial statements. Pursuant to recently enacted legislation, the Governor of the Commonwealth has ordered the suspension of loan disbursements by GDB, imposed restrictions on the withdrawal and transfer of deposits from GDB, and imposed a moratorium on debt obligations of GDB, among other measures.

The Commonwealth and its instrumentalities have not been able to repay their loans from GDB, which has significantly affected GDB's liquidity and ability to repay its obligations.

As the result of GDB's liquidity problem and as further described in Note 4 to the financial statements, management concluded that the Authority's cash deposits in GDB are considered a custodial credit risk loss at June 30, 2016.

In addition, the Authority has a certificate of deposit with EDB, which at June 30, 2016 amounts to approximately $7.2 million before an impairment loss of $5.7. Management believes that EDB faces significant risks and uncertainties and it currently does not have sufficient liquid financial resources to meet obligations when they come due. Therefore, management considers the amount deposited in EDB to be a custodial credit risk loss except for approximately $1.5 million which was paid by EDB after June 30, 2016.

A summary of deposits in GDB and EDB at June 30, 2016 follows:

	2016
Government Development Bank	$ 54,396,174
Economic Development Bank	7,238,771
Total	61,634,945
Less custodial credit risk loss	(60,110,153)
Net deposits in governmental banks	$ 1,524,792

Total custodial credit risk loss on the above deposits recorded during the year ended June 30, 2016 amounts to approximately $13.6 million.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that in event of the failure of the counterpart, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority invests in prime investments with a minimum quality rating of Aa1 (Moody's) or AA+ (Standard and Poor's). In addition, investments in bond sinking funds are limited to direct obligations of the United States government, or obligations unconditionally guaranteed by the United States government, and/or interest-bearing time deposits, or other similar arrangements, as provided by the Bond Resolutions.

The Authority maintains funds and accounts under the Bonds Resolutions that are held by a trustee. As of June 30, 2016, the total cash equivalents and investments with trustee amounted to approximately $400.4 million. These accounts invest on different types of short-term and long-term securities, including Guaranteed Investment Contracts (GICs). Under these GICs, the financial institution guarantees the Authority a fixed rate of return. As established in the contract, the financial institution has invested such funds in predetermined securities such as cash, U.S. Treasury and U.S. Government Agency securities. These securities are pledged and serve as collateral for the account balance. The fair value of the GICs is determined based on the fair value of the underlying investments based on quoted market prices and then adjusted to contract value. As of June 30, 2016, the contract value, which represents amounts deposited plus interest credited less withdrawals, is equal to the fair value.

Providers of guaranteed investment contracts as of June 30, 2016, are as follows:

	2016
Bank Of America	$ 46,883,778
FSA Capital Management Services	44,674,424
Total	$ 91,558,202

Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes to market interest rate. Maturities of cash and cash equivalents and investments with Trustee at June 30, 2016, are as follows:

	2016				
	Less than One Year	One to Five Years	Five to Ten Years	Ten to Twenty Years	Total
U.S treasury bill	$ 2,990,611	$ -	$ -	$ -	$ 2,990,611
Cash equivalent - money market fund	141,928,470	-	-	-	141,928,470
Mutual funds	98,356,529	-	-	-	98,356,529
Guaranteed investment contracts	83,654,284	-	-	7,903,918	91,558,202
US Government and agencies securities	2,515,000	10,820,845	13,389,664	-	26,725,509
Corporate bond	13,278,859	-	-	-	13,278,859
Mortgage backed securities	25,589,000	-	-	-	25,589,000
Total	$368,312,753	$ 10,820,845	$ 13,389,664	$ 7,903,918	$400,427,180

Guaranteed investment contracts amounting to approximately $83.7 million were terminated during December 2016.

10. CAPITAL ASSETS, NET

The following schedule summarizes the capital assets, net, held by the Authority as of June 30, 2016:

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Assets not being depreciated				
Land	$ 1,915,582,797	$ 102,529	$ -	$ 1,915,685,326
Construction in progress	349,291,342	166,884,804	(170,291,915)	345,884,231
Total assets not being depreciated	2,264,874,139	166,987,333	(170,291,915)	2,261,569,557
Assets being depreciated				
Transportation system	2,419,375,826	-	-	2,419,375,826
Roads	12,782,877,517	116,668,146	-	12,899,545,663
Bridges	3,507,443,355	22,329,460	-	3,529,772,815
Buildings	22,500,000	-	-	22,500,000
Equipment, vehicles and other	134,856,453	2,232,600	(2,526,963)	134,562,090
Total	18,867,053,151	141,230,206	(2,526,963)	19,005,756,394
Less accumulated depreciation	(10,707,012,136)	$ (449,128,630)	2,460,689	(11,153,680,077)
Total assets being depreciated	8,160,041,015	(307,898,424)	(66,274)	7,852,076,317
Total capital assets, net	$ 10,424,915,154	$ (140,911,091)	$ (170,358,189)	$ 10,113,645,874

Interest expense incurred during the year ended June 30, 2016, amounted to approximately $337 million, of which approximately $1.9 million was capitalized as part of construction in progress in the accompanying statement of net position.

11. HIGHWAYS AND BRIDGE UNDER SERVICE CONCESSION ARRANGEMENT

Highways and bridge under service concession arrangement as of June 30, 2016 is summarized as follows:

	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Toll roads (PR 5 and PR 22)	$ 310,391,908	$ -	$ -	$ 310,391,908
Toll roads concession improvements	22,059,321	18,653,676	-	40,712,997
Bridge	109,500,000	-	-	109,500,000
Total	441,951,229	18,653,676	-	460,604,905
Less accumulated depreciation	(264,653,490)	(2,730,783)	-	(267,384,273)
Total	$ 177,297,739	$ 15,922,893	$ -	$ 193,220,632

Toll Roads Service Concession Arrangement (PR-5 and PR-22)

On September 22, 2011, the Authority entered into a toll road service concession arrangement with the Operator, in which the Authority granted to the operator the right to operate PR-5 and PR-22 highways (the Toll Roads) for a period of 40 years (the Concession Agreement). During the 40-year term, the Concessionaire will have the right to charge and collect the tolls imposed on the Toll Roads.

The Authority received an upfront concession fee payment of $1.136 billion, from which approximately $873.1 million was used to redeem or defeased bonds issued and outstanding associated with the Toll Roads

In 2012, the Authority recorded a deferred inflow of resources from service concession arrangement of $1.136 billion that will be amortized and recognized as revenue over the 40-year term of the agreement. In 2012, the Authority recognized $21.0 million of revenue related to this transaction and will recognize $28.4 million for each subsequent year through 2052. The Toll Roads (capital assets) will continue to be reported in the statement of net position as a separate item as highways and bridge under service concession arrangement. Toll Roads at June 30, 2016 amounted to approximately $131.5 million, net of accumulated depreciation. Toll Roads depreciation was suspended on September 22, 2011 until the end of the agreement since the concession agreement requires the Operator to return the Toll Roads to the Authority in its original or an enhanced condition. However, improvements by the Operator to the toll roads are depreciated over the estimated useful life.

On April 19, 2016, the Authority entered into an amendment of the Service Concession Arrangement to extend the original term for ten (10) additional years and to create five (5) bi-directional tolling points on PR-5 and PR-22 highways. The Authority received an upfront concession fee payment of $100 million, from which was used to pay $18.2 million of Authority current debts and $79.8 million to pay Commonwealth debts. Also, the Authority will receive additional $15 million on the earlier of the bidirectional tolls commencement date on June 30, 2017.

In addition, the Authority capitalized and considered as deferred inflows of resources $18.7 million during the year ended June 30, 2016, for improvements made by the Operator to the Toll Roads.

Bridge Service Concession Arrangement

On December 20, 1992, the Authority and Autopistas entered into a service concession agreement amended in 2004 and 2009, for the design, construction, operation and maintenance of the Bridge, a toll bridge, which crosses the San José Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994 (valuation date). The initial term of this agreement was 35 years, expiring on April 3, 2027. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044).

As of June 30, 2013, the Authority recognized the Bridge at fair value, equivalent to what the Authority might have paid to have the Bridge constructed (replacement cost) at valuation date. The replacement cost was determined to be $109.5 million depreciated over an estimated useful life of 50 years and a deferred inflow of resources of $109.5 million that will be amortized and recognized as revenue over the term of the agreement (50 years). The asset balance related to the Bridge was adjusted to recognize the first 17 years of operation and the remaining amortization will be amortized by 33 years

Under certain circumstances, including if minimum toll revenues are not achieved, the Service Concession Arrangement may be terminated, and the Authority is then obligated to assume all of Autopistas' obligations to pay principal of, and interest on, the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Bridge. Although Autopistas currently has the ability to terminate the Service Concession Arrangement and have the Authority to assume the obligations, the Authority has not received such notice and does not currently expect the Service Concession Arrangement to terminate. The outstanding bonds (including accrued interest), which are not reflected in the Authority's statement of net position, at June 30, 2016, amounted to approximately $150.7 million.

The deferred inflows of resources at June 30, 2016 , consisted of:

	2016
Toll Roads Concession	$ 1,140,665,548
Bridge Concession	61,320,000
Total	$ 1,201,985,548

12. LONG-TERM LIABILITIES

Long-term debt activity for the year ended June 30, 2016, was as follows:

	Balance at June 30, 2015	Issuance/ Accretions	Payments/ Amortization	Balance at June 30, 2016	Due within One Year
Serial bonds					
Resolution 1968-18	$ 437,090,000	$ -	$ (12,155,000)	$ 424,935,000	$ 28,335,000
Resolution 1998-06	1,306,100,000	-	(58,170,000)	1,247,930,000	61,245,000
Total	1,743,190,000	-	(70,325,000)	1,672,865,000	89,580,000
Term bonds					
Resolution 1968-18	407,910,000	-	(14,815,000)	393,095,000	-
Resolution 1998-06	1,845,010,000	-	(2,965,000)	1,842,045,000	3,110,000
Total	2,252,920,000	-	(17,780,000)	2,235,140,000	3,110,000
Variable rate bonds					
Resolution 1998-06	200,000,000	-	-	200,000,000	-
CPI based interest-rate bonds					
Resolution 1998-06	57,965,000	-	-	57,965,000	-
LIBOR based interest-rate bonds					
Resolution 1998-06	700,000	-	-	700,000	-
Capital appreciation bonds					
Resolution 1968-18	24,462,259	1,130,772	-	25,593,031	-
Resolution 1998-06	118,947,406	4,605,440	(25,250,000)	98,302,846	25,250,000
Total	143,409,665	5,736,212	(25,250,000)	123,895,877	25,250,000
Total before bond premium	4,398,184,665	5,736,212	(113,355,000)	4,290,565,877	117,940,000
Add net bond premium	259,967,815	-	(10,474,331)	249,493,484	-
Total bonds outstanding	$4,658,152,480	$ 5,736,212	$ (123,829,331)	$4,540,059,361	$ 117,940,000
Other long-term liabilities					
Accrued legal claims	$ 162,146,003	$ 30,767,631	$ (65,909,178)	$ 127,004,456	$ 19,356,355
Accrued vacations and sick leave	21,839,230	9,156,368	(5,750,538)	25,245,060	9,583,442
Voluntary termination incentive plan liability	75,185,092	-	(5,324,968)	69,860,124	8,486,662
Non-revolving lines of credit	1,812,979,493	-	(79,281,993)	1,733,697,500	1,733,697,500
Total other liabilities	$2,072,149,818	$ 39,923,999	$ (156,266,677)	$1,955,807,140	$1,771,123,959

13. BONDS PAYABLE

The bond resolutions authorize the issuance of revenue bonds to obtain funds to pay the construction and related costs of transportation facilities. Bonds outstanding under the bond resolutions at June 30, 2016, consisted of:

	2016
RESOLUTION 1968-18	
Serial bonds, maturing through 2034 with interest ranging from 3.30% to 6.50%	$ 424,935,000
Term bonds, maturing through 2039 with interest ranging from 4.00% to 6.00%	393,095,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 4.36% to 4.58%	25,593,031
Total resolution 68-28	843,623,031

HTA_STAY0000811

RESOLUTION 1998-06	
Serial bonds, maturing through 2037 with interest ranging from 2.25% to 5.75%	1,247,930,000
Term bonds, maturing through 2046 with interest ranging from 2.25% to 5.75%	1,842,045,000
Variable rate bonds	200,000,000
Capital appreciation bonds, maturing through 2026 with interest ranging from 4.47% to 5.08%	98,302,846
LIBOR based interest rate bonds maturing through 2045	700,000
Consumer Price Index based interest rate bonds maturing through 2028	57,965,000
Total resolution 1998-06	3,446,942,846
Total bonds outstanding	4,290,565,877
Add: Net unamortized premium	249,493,484
Net bonds payable	4,540,059,361
Less: Current portion	117,940,000
Long-term portion	$ 4,422,119,361

The bonds pledge, to the extent they are received from the Commonwealth, the gross receipts of the gasoline excise taxes and one half of the diesel oil excise taxes, a maximum of $11 million monthly (but not more than $120 million annually) derived from excise taxes over crude oil and its derivatives, $15 per vehicle per year from motor vehicle license fees, the proceeds of any other taxes, fees or charges which the Commonwealth may allocate to the Authority in the future and which the Authority may pledge, proceeds of any tolls or other charges which the Authority may impose for the use of any of its traffic facilities and certain investment earnings.

The Authority's bond payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America, that require rebate to the federal government of excess investments earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. Arbitrage calculations resulted in no liability as of June 30, 2016.

The proceeds of the gasoline tax, the gas oil and diesel oil tax, the crude oil tax and the motor vehicle license fees allocated to the Authority are taxes and revenues available under the Constitution of the Commonwealth for the payment of principal and interest of bonds. Accordingly, if needed, they are subject to retention by the Commonwealth. On November 30, 2015, the Governor of Puerto Rico issued Executive Order 2015-046, which directed the Puerto Rico Treasury Department to retain certain gasoline, oil, diesel, and petroleum taxes that had previously been allocated to the Authority. These revenues are to be used for other essential services within the Commonwealth. The Authority has seen the effect of Executive Order 2015-046 on its revenues commencing on fiscal year 2016. During the year ended June 30, 2016, the Commonwealth retained taxes amounting to approximately $314.9 million that would have otherwise been transferred to the Authority as further described in Note 4.

The Bond Resolutions further provides that receipts of pledged revenues be deposited in certain accounts with the Fiscal Agent for the payment of interest and principal of the bonds outstanding.

Nothing in the Bond Resolutions is to be construed as preventing the Authority from financing any facilities authorized by the Act that created the Authority, as amended, through the issuance of bonds or other obligations, which are not secured under the provisions of the Bond Resolutions.

The variable rate bonds bear interest at an annual rate of interest (no to exceed the maximum legal rate) as determined by the remarking agent on and as of the rate determination rate. This rate will be, in the judgement of the remarking agent under existing current market conditions, the rate that would result in the sale of the outstanding variable interest bonds at a price equal to the purchase price as defined in the bond offering. The effective rate of these bonds at June 30, 2016 was 12%.

The Series N LIBOR Bonds bear interest from their date of delivery at a per annum rate for each period equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) a per annum spread equal to 0.53%. In each case the LIBOR based interest rate cannot exceed the maximum rate permitted under Puerto Rico law (currently 12%). The effective rate on these bonds at June 30, 2016 was 1%.

Interest on the Consumer Price Index (CPI) Bonds will be payable on the first business day of each month commencing on July 2, 2007. The CPI Rate, which will be reset monthly, is an interest rate based on changes in the CPI and cannot exceed the maximum rate permitted under the Puerto Rico law (currently 12%). The effective rate on these bonds at June 30, 2016 was 1.53%.

Debt Maturities

The outstanding bonds as of June 30, 2016, require future payments of principal and interest as follows:

Fiscal years ended June 30,	Principal	Interest	Total
2017	$ 117,940,000	$ 212,073,572	$ 330,013,572
2018	121,656,588	207,127,412	328,784,000
2019	125,626,655	201,975,425	327,602,080
2020	130,026,563	196,457,598	326,484,161
2021	136,508,038	190,076,640	326,584,678
2022-2026	770,303,698	842,579,599	1,612,883,297
2027-2031	872,549,335	647,884,373	1,520,433,708
2032-2036	1,036,960,000	418,510,440	1,455,470,440
2037-2041	843,560,000	145,572,188	989,132,188
2042-2046	121,560,000	16,464,425	138,024,425
2047	13,875,000	693,750	14,568,750
Total	$ 4,290,565,877	$ 3,079,415,422	$ 7,369,981,299

For variable interest-rate bonds included above, the debt service requirements and net swap payments were computed assuming current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

As explained in Note 22 the Authority defaulted in the payment of debt service of certain bonds outstanding at June 30, 2016.

Debt Refunding

The outstanding balances as of June 30, 2016, of the bond issues defeased by the Authority are as follows:

	2016
Series Y	$ 422,680,000
Series M	10,000
Series AA	189,830,000
Series BB	22,265,000
Series CC	6,520,000
Series Z	23,690,000
Total	$ 664,995,000

14. BORROWINGS UNDER LINES OF CREDIT

The Authority has various unsecured lines of credit with the GDB. The lines of credit were due on various dates through January 31, 2016 and therefore are on default at June 30, 2016 and remains in default as of the date of these financial statements were issued. The amount outstanding under these lines of credits amounts to approximately $1,733.7 million and bears interest at the GDB cost of funding for tax exempt or variable rate loan transactions plus a margin which range from 125 to 275 basis points (6% at June 30, 2016). During the year ended June 30, 2016 interest expense on these lines of credits amounted to approximately $108.2 million and the accrued and unpaid interest on such notes amounted to approximately $326.9 million at June 30, 2016.

15. RETIREMENT PLAN

The following description refers to the Retirement System's benefits and operations before the approval of Act No. 106-2017, on August 23, 2017. See Note 22.

The Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (the Retirement System), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth. The Retirement System consists of different benefit structures, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program and a defined contribution hybrid program.

Disclosures about the Defined Benefit Retirement Plans

Defined Benefit Program

Pursuant to Act No. 447 of May 15, 1951, as amended, all regular employees of the Authority hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the Retirement System, under the Defined Benefit Program, as a condition of their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

The Defined Benefit Program provides retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits.

Members who have attained 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. The annuity for which the participant is eligible, is limited to a minimum of $500 per month and a maximum of 75% of the average compensation, as defined.

Participants who have completed 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

The Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary.

Act No. 1 of February 16, 1990, made certain amendments applicable to new participating employees joining the Retirement System effective April 1, 1990. These changes consist principally of an increase in the retirement date from 55 to 65, a decrease in the benefit percentage of the average compensation in the occupational disability and occupational death benefits annuities from 50% to 40%, and the elimination of the Merit Annuity for participating employees who have completed 30 years of creditable service.

On September 24, 1999, the Legislature enacted Act No. 305, which amended Act No. 447 to establish a new retirement program. In addition, on April 4, 2013, the Legislature enacted Act No. 3, which amended the provisions of the different benefit structures under the Retirement System, including the Defined Benefit Program.

System 2000 Program

The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to create, among other things the System 2000 Program, a new benefit structure, similar to a cash balance plan (defined contribution plan). All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the Defined Benefit Program, received a refund of their contributions, and were rehired on or after January 1, 2000, and became members of the System 2000 Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the Defined Benefit Program had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the Defined Benefit Program plus interest thereon to the System 2000 Program.

Commonwealth's legislation requires employees to contribute 10% of their monthly gross salary to the System 2000 Program. Employee contributions are credited to individual accounts established under the System 2000 Program. Participants have three options to invest their contributions to the system 2000 Program. Investment income is credited to the participant's account semiannually.

Under System 2000 Program, contributions received from participants are pooled and invested by the Retirement System, together with the assets corresponding to the Defined Benefit Program. Future benefit payments under the Defined Benefit Program and the System 2000 Program will be paid from the same pool of assets. As a different benefit structure, the System 2000 Program is not a separate plan and the Commonwealth does not guarantee benefits at retirement age.

Corresponding employers' contributions will be used by the Retirement System to reduce the unfunded status of the Defined Benefit Program.

The System 2000 Program reduced the retirement age from 65 years to 60 years for those employees who joined this plan on or after January 1, 2000.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries.

Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

On April 4, 2013, the Legislature enacted Act No. 3 which amended the provisions of the different benefit structures under the Retirement System, including the System 2000 Program.

Defined Contribution Hybrid Program

On April 4, 2013, the Legislature enacted Act No. 3, which amended Act No. 447, Act No. 1 and Act No. 305 to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the System 2000 Program, and were rehired on or after July 1, 2013, become members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants.

Participants in the Defined Benefit Program who as of June 30, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants who as of June 30, 2013, have not reached the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

Participants in the System 2000 Program who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program. Participants in the System 2000 Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Defined Contribution Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Defined Contribution Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under the Retirement System, including, but not limited to, the following:

- Increased the minimum pension for current retirees from $400 to $500 per month.
- The retirement age for the Act No. 447 participants will be gradually increased from age 58 to age61.
- The retirement age for the active System 2000 Program participants will be gradually increased from age 60 to age 65.
- Eliminated the "merit annuity" available to participants who joined the retirement System prior to April 1, 1990.
- The retirement age for new employees was increased to age 67.

- The employee contribution rate was increased from 8.275% to 10%.
- For the System 2000 Program participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from $600 to $200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the Retirement System.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits were modified.

Employee contributions are credited to individual accounts established under the Defined Contribution Hybrid Program. In addition, a mandatory contribution equal to or less than point twenty-five percent (0.25%) is required for the purchase of disability insurance.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death, the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service, a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability, the participants have the option of receiving a lump sum or purchasing an annuity contract.

For the year ended June 30, 2016, the Authority was required to contribute 14.275% of each participant's gross salary under the different benefit structures. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent (1.25%).

Total employee contributions for the defined benefit pension plan, the defined contribution plan and the defined contribution hybrid program during the year ended June 30, 2016, amounted to approximately $4.9 million. The Authority's contributions (either paid or accrued) during the year ended June 30, 2016 amounted to approximately $7 million. These amounts represented 100% of the required contribution for the corresponding year. Total payroll subjected to retirement contributions amounted to approximately $51 million for the year ended June 30, 2016. Individual information for each option is not available since the allocation is performed by the Retirement System itself.

Statement No. 68 of the *Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions*

Statement No. 68 of the *Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (GASB 68)* became effective for the year ended June 30, 2015. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria as is the case of the Retirement Systems.

As of the date of the release of this report, the Retirement System has not provided the Authority with the required information to implement the requirements of Statement No. 68 of the Governmental Standards Board, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No 27 (GASB 68). Therefore, the accompanying financial statements do not have any adjustments that will be necessary for the Authority to account for its proportionate share of the net pension liability, deferred inflows of resources and deferred outflows of resources in the statements of net assets as of July 1, 2015 and June 30, 2016, as well as the effect in the recorded pension expense in the statement of activities for the year ended June 30, 2016. Also, additional disclosure required by GASB 68 as well as required supplementary information were not included in the basic financial statements.

Additional information on the Retirement System is provided on its standalone financial statements for the year ended June 30, 2014, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

16. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Authority agreed to provide medical, pharmacy, dental and vision medical insurance coverage to eligible retirees, its spouses and dependents, for a period of two years after retirement as a single employer defined benefit as Other Post-Employment Benefits Plan (the "Plan"). The Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The obligations of the Plan members' employer are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

The Authority currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Authority.

Annual OPEB Cost and Net OPEB (Asset) Obligation

The Authority's annual OPEB cost (expense) is calculated based on the annual required contributions of the employer (ARC). The Authority has engaged an actuary to calculate the ARC and related information per the provisions of GASB No. 45 for employers in the Plan with more than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the plan, and the Authority's net OPEB (asset) obligation to the Plan:

	2016
Annual required contribution (ARC)	$ 326,303
Adjustment to annual required contribution	35,144
Annual OPEB cost (AOC)	361,447
Contributions made	71,213
Decrease in net OPEB obligation	290,234
Net OPEB asset at beginning of year	(1,179,136)
Net OPEB asset at end of year	$ (888,902)

The Authority's annual OPEB cost, percentage of annual OPEB cost contribution to the plan, and net OPEB (asset) obligation for the year ended June 30, 2016, were as follows:

Year Ended June 30,	OPEB Cost	OPEB Cost Contributed	(Asset)/ Obligation
2016	$ 361,447	19.70 %	$ (888,902)
2015	348,804	6.16 %	(1,179,136)
2014	347,886	7.23 %	(1,506,466)
2013	378,179	14.89 %	(1,829,177)
2012	704,307	231.68 %	(2,151,043)

As of June 30, 2016, the actuarial accrued liability for benefits was $2,745,000, which were unfunded. The covered payroll (annual payroll of active employees covered by the plan) were approximately $52.1 million during the year ended June 30, 2016, and the ratio of the unfunded actuarial accrued liability to the covered payroll was approximately 5.3% as of June 30, 2016.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to the point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The valuation date was July 1, 2014 and the *Projected Unit Credit Cost Method* was used. The actuarial assumptions were based on a set of assumptions modified to the Authority.

Turnover rates were taken from a standard actuary table, T-5. This table was chosen so as to match the Authority's historical turnover experience. Retirement rates were also based on recent Authority's experience, but are less reliable due to the size of the current retiree group and the relative newness of the program.

A discount rate of 3.25% was used. This rate is the best actuarial estimate of expected long-term experience and is in accordance with guidelines for selection of these rates under GASB 45. The healthcare trend rates are based on the actuarial knowledge of the general healthcare environment and the specific coverage offered by the Authority.

17. VOLUNTARY TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Authority. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 years to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee' salary, as defined. In this early retirement benefit program, the Authority will make the employee and the employer contributions to the Retirement System and pay the corresponding pension obligation until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement.

Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. For eligible employees that choose the economic incentives and have at least 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement, the Authority will make the employee and the employer contributions to the Retirement System for a five-year period.

Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Authority.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Authority's financial statements of a liability of $69.9 million in the statement of net position as of June 30, 2016, and a charge of $3 million in the statement of revenues, expenses and changes in net position for the years ended June 30, 2016. At June 30, 2016, unpaid long-term benefits granted on this program were discounted between 1.23%, for early retirement benefits that will be provided to eligible employees that have completed between 15 years to 29 years of credited service in the Retirement System and between .44% and .56, for employee and the employer contributions to the Retirement System to eligible employees that have 30 years of credited service in the Retirement System and the age for retirement or have the age for retirement.

18. RELATED PARTY TRANSACTIONS

Operating administrative and general expenses during the fiscal years ended June 30, 2016, included approximately $9.1 million of charges from Puerto Rico Electric Power Authority (PREPA), a component unit of the Commonwealth. In addition, during the year ended June 30, 2016 the Authority received charges from the Public Building Authority (PBA), a component unit of the Commonwealth of Puerto Rico, for rental of buildings amounting to approximately $792 thousand.

As of June 30, 2016, the Authority had approximately $55.5 million of receivables from the Commonwealth and its component units, which were reported in accounts receivable in the accompanying statement of net position. These amount is for various services and charges to the Commonwealth and its component units. A significant amount of this balance is overdue at June 30, 2016 and therefore is included in the allowance for doubtful accounts at that date.

In addition, restricted assets include $1.2 million due by the Commonwealth for petroleum and other taxes allocated to the Authority.

Over the years, GDB, as fiscal agent and bank of the Commonwealth, had extended lines of credit to the Authority in order to finance capital improvement projects and operational deficits. As of June 30, 2016, the Authority an outstanding balance of approximately $1,734 million under these lines of credit as explained in Note 14 to the financial statements. Total interest expense on these lines of credits recorded during the year ended June 30, 2016 amounted to approximately $108.2 million. Total accrued interest on these lines of credit amounted to approximately $326.9 million.

Bonds payable include $200 million variable rate bonds, purchased by GDB from a third-party on May 19, 2014.

As of June 30, 2016, the Authority has amounts due to other governmental entities for operating leases, utilities, interest on line of credits and other agreements of approximately $401.4 million which are included in accounts payable and accrued liabilities in the accompanying statement of net position.

During the year ended June 30, 2016 the Authority made a cash payment to the Commonwealth of Puerto Rico amounting to approximately $79.8 millions.

19. COMMITMENTS AND CONTINGENT LIABILITIES

Construction

As of June 30, 2016, the Authority had commitments of approximately $158.2 million related to construction contracts.

Leases

The Authority has various non-cancelable operating leases for office space with the Puerto Rico Public Buildings Authority, which is a related party. These leases have an initial term of three years or more, and were due during fiscal years 2003 and 2004. The contracts have not been renewed and the Authority continues to use the premises on a month to month basis. The rental recorded by the Authority on these contacts amounts to approximately $792 thousands during the year ended June 30, 2016.

Litigation

The Authority is defendant or co-defendant in various lawsuits for alleged damages in cases principally related to construction projects. These are generally either fully or partially covered by insurance. The contractors are required, under the terms of the construction agreements, to carry adequate public liability insurance and to hold harmless the Authority from lawsuits brought on account of damages relating to the construction of the projects.

As of June 30, 2016, the Authority, based on legal advice, has recorded a liability of approximately $127 million for probable losses on those claims not fully covered by insurance. Outstanding legal liability is composed of $19.4 million of legal cases related to construction projects and $107.6 million related to expropriation and related costs. In the opinion of legal counsel, any liability in excess of the recorded liability that may arise from such claims would not be significant to the Authority's financial position or results of operations.

The Authority has been named as defendant in various legal cases related to the Puerto Rico Emergency Moratorium and Financial and Rehabilitation Act ("Moratorium Act") and the to the filing for protection relief under PROMESA as explained in Notes 3 and 4 to the financial statements. Some of these cases has been dismissed by the Courts without prejudice in favor of the Authority while others are in early stages or in appeals process. Management, after consulting legal counsel, believes that it is too early to determine the final outcome of these cases and the impact, if any, their final resolution will have on the Authority's financial position and results of operations.

Special Facility Revenue Bonds

On December 20, 1992, the Authority and Autopistas entered into a service concession arrangement (the Concession Arrangement), amended in 1992, and again in 2004, for the design, construction, operation and maintenance of the Bridge, a toll bridge, which crosses the San José Lagoon between the municipalities of San Juan and Carolina. Autopistas designed and constructed the Bridge and commenced operating the Bridge on February 23, 1994. The initial term of this agreement is 35 years, expiring on April 3, 2027. On September 9, 2009, the agreement was amended to extend its term to 50 years (2044).

In March 1992, the Authority issued Special Facility Revenue Bonds, 1992 Series A, B and C amounting to approximately $117 million for the purpose of facilitating the construction of the Bridge. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, the borrower, pursuant to a loan agreement (the Loan Agreement) by and between Autopistas and the Authority.

On October 30, 2003, the Authority issued Special Facility Revenue Refunding Bonds, 2004 Series A amounting to approximately $153 million for the purpose of refunding the Authority's Special Facility Revenue Bonds, 1992 Series A, B, and C, which were issued to fund the construction of the Bridge, and to pay the cost of issuance of the bonds. The proceeds from the sale of the bonds were transferred by the Authority to Autopistas, pursuant to a new loan agreement by and between Autopistas and the Authority.

Under certain circumstances, including if minimum toll revenues are not achieved, the Service Concession Arrangement may be terminated, and the Authority is then obligated to assume all of Autopistas' obligations to pay principal of, and interest on, the bonds outstanding, which pursuant to the Loan Agreement will be paid from the net revenues of the use and operation of the Bridge. Although Autopistas currently has the ability to terminate the agreement and has the Authority to assume the obligations, the Authority has not received such notice and does not currently expect the Concession Arrangement to terminate. The outstanding bonds (including accrued interest), which are not reflected in the Authority's statement of net position, at June 30, 2016, amounted to approximately $146.3 million.

Federal Assistance Programs

The Authority participates in a number of federal financial assistance programs. These programs are subject to audits in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, or to compliance audits by grantor agencies. On March 31, 2014, the Federal Highway Transportation approved $756.4 million in toll credits that may be applied toward the non-Federal matching share of transit projects. These toll credits will remain available until used. Since inception only $90 million in toll credits have been claimed, there is an outstanding balance of $700.1 million waiting validation for future federally aided projects.

20. OPERATION AND MAINTENANCE OF URBAN TRAIN SYSTEM

The Authority entered into a System and Test Track Turnkey Contract (STTT Contract) with Siemens Transportation Partnership Puerto Rico, S.E., Juan R. Requena y Asociados, and Alternate Concepts, Inc. (all together known as "Siemens") for the purpose of operating and maintaining the Tren Urbano. During 2005, the STTT Contract became effective upon the execution of the contract for an initial term of five years with an option by the Authority to extend the term for an additional five years. The compensation is based on a schedule included in the master agreement which approximates $4 million on a monthly basis. The total annual operation and maintenance cost, including cost of insurance and electricity, for the year ended June 30, 2016, was approximately $56.6 million including approximately $32 million paid under this contract. On June 5, 2015, the Authority extended the contract for the operation and maintenance of the Tren Urbano for one (1) additional year ending on June 6, 2016.

The Authority contracted First Transit, a public corporation of the Commonwealth, to operate the service known as Metrobus I which consists of two express routes, Metrobus Route I and Metrobus Expreso, which provides service between the University of Puerto Rico and Old San Juan. The service is provided seven days a week using 24 buses owned by First Transit. The existing service agreement with First Transit expired on June 30, 2015 and was extended to June 30, 2018.

21. OTHER OPERATIONAL INCOME

Other operating income for the year ended June 30, 2016, consisted of:

	2016
Electronic toll label sales and fines fees	$ 29,129,579
Bridge fee	1,714,605
Rental income	1,055,754
Impact fee	1,011,146
Metrobus fare fees	705,725
Other	2,954,178
Total	$ 36,570,987

22. SUBSEQUENT EVENTS

Subsequent events were evaluated through April 6, 2018, the date the financial statements were available to be issued, to determine if such events should be recognized or disclosed in the 2016 financial statements.

On December 28, 2015, Act. No. 211, known as the Pre-retirement Voluntary Program Act (the "Act") was enacted. The Act allows eligible active employees under the Government of Puerto Rico Employee Retirements System (the "Retirement System") under Act No. 447, hired before April 1990, with a minimum of twenty years (20) of service, to participate in a voluntarily retirement program. The estimated total cost of this program to the Authority is approximately $47 million and the Authority expects savings of $98.9 million at the culmination of the program.

On July 1, 2016, the trustee of the Authority's 1998 Resolution SIB Bonds notified the Authority that it failed to make a portion of the principal and interest payment to the trustee on July 1, 2016 and that a default under the trust agreement constitutes an event of default under the 1998 Resolution SIB Bonds Trust Agreement. As such, the Authority is in default of this obligation. The amount not paid amounted to approximately $4.5 million of which approximately $3.3 million were paid the insurance company under the financial guarantee insurance policy.

On May 21, 2017, Puerto Rico's Financial Oversight Board (the "Oversight Board") initiated proceedings under Title III of PROMESA as described in Notes 3 and 4 to the financial statements.

On June 30, 2017, the Oversight Board approved and certified the Budget for the fiscal year 2018 of the Authority.

On July 3, 2017, by virtue of roll over from July 1, 2017, next business day, the trustee of the Authority notified the Authority that if failed to make payment on principal and interest amounting to approximately $107.2 million and $116.9 million, respectively, under the 1968 and 1998 Bond Resolutions. Of the total amount defaulted by the Authority approximately $76.5 million and $66.7 of principal and interest respectively was paid by the insurance company under the financial guarantee insurance policy.

On July 19, 2017 the Treasury Department of the Commonwealth of Puerto Rico ("Treasury Department") issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, the new pay-as-you-go (""PayGo") mechanism for all the Commonwealth's Retirement Systems. With the start of the fiscal year 2017, employers' contributions, contributions ordered by special laws and the additional uniform contribution were all eliminated and replaced with a monthly PayGo charge that will be collected from the aforementioned entities to pay retirees. The Retirement Systems will determine and administer the payment amount per retiree that will be charged to each agency, public corporations and municipalities. The PayGo must be submitted to the Treasury Department before the 15th of each month along with the individual contributions withheld from active employees. As liquid retirements funds become depleted, the PayGo charge is expected to increase. In addition to the PayGo mechanism being established, the Commonwealth is also working on a reform of the Retirement Systems, in which active participants would deposits their individual contributions in a New Defined Contribution Plan that will be managed by a private entity. This reform became law on August 23, 2017 with the enactment of Act 106-2017, *Act to Guarantee the Payment of Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants*. The PayGo charge to the Authority is based on the amount of pensions the Commonwealth will pay to the Authority's retired employees. It is estimated that the Authority PayGo charge will be approximately $34 million during the year ending June 30, 2017.

During September 2017, hurricanes Irma and Maria struck the island of Puerto Rico causing widespread damages throughout the island. At the date of the financial statements management is in the process of determining the amount of damages suffered by the Authority's roads, bridges, mass transportation system and other capital assets. Although management has been unable to determine the amount of damages at the date of the financial statements, it believes that the damages will be significant. A preliminary assessment of the physical damages to roads and bridges amounts to approximately $437 million. Management is still in the process of assessing the physical damages to the urban train system. In addition, hurricane Maria caused an interruption in the Authority's electronic toll system and train operation resulting in a loss of revenue. The Authority has insurance policies in force at the time of both hurricanes and expects to recover part of the losses incurred from the insurance companies. However, the physical damages to roads and bridges are not covered by insurance. Management expects to recover part of such damages with assistance to be provided by the Federal Emergency Management Administration ("FEMA").

Effective March 23, 2018, GDB ceased its operations.

REQUIRED SUPPLEMENTARY INFORMATION

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN (OPEB)
FOR THE YEAR ENDED JUNE 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (URAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (C)	URAL Percentage of Covered Payroll [(b)-(a)/(C)]
July 1, 2014	$ -	$ 2,745	$ 2,745	0.0	$ 52,106	5.3 %
July 1, 2012	-	2,735	2,735	0.0 %	94,172	2.9 %
July 1, 2010	-	7,662	7,662	0.0 %	84,158	9.1 %
July 1, 2009	-	7,185	7,185	0.0 %	91,936	7.9 %

SUPPLEMENTARY INFORMATION

PUERTO RICO HIGHWAYS AND TRANSPORTATION AUTHORITY
(a Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF REVENUES AND EXPENSES BY SEGMENT (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

	Toll Roads	Integrated Transportation	Other	Total
Operating revenues:				
Toll fares	$ 134,180,791	$ -	$ -	$ 134,180,791
Train fares	-	10,731,483	-	10,731,483
Other revenues	4,239,048	958,198	31,373,741	36,570,987
Concession agreement	30,596,914	-	-	30,596,914
Total operating revenues	169,016,753	11,689,681	31,373,741	212,080,175
Operating expenses:				
Salaries and related benefits	8,748,377	1,124,115	15,460,675	25,333,167
Post-employment benefits	1,755,492	117,528	1,142,292	3,015,312
Toll highways administration and maintenance	23,624,764	-	-	23,624,764
Train operating and maintenance costs	-	52,864,569	-	52,864,569
Integrated transportation system	-	14,876,786	-	14,876,786
Repairs and maintenance in projects	3,701,357	48,205	41,987,454	45,737,016
Utilities	901,753	6,459,500	1,732,175	9,093,428
Other	5,411,813	4,248,740	8,128,025	17,788,578
Total operating expenses	44,143,556	79,739,443	68,450,621	192,333,620
Operating income (loss) before depreciation and amortization	124,873,197	(68,049,762)	(37,076,880)	19,746,555
Depreciation and amortization	61,248,855	48,387,517	342,223,041	451,859,413
Operating income (loss)	63,624,342	(116,437,279)	(379,299,921)	(432,112,858)
Non-operating revenues (expenses):				
Gasoline, diesel, oil and petroleum tax revenues	-	-	179,060,430	179,060,430
Cigarette tax	-	-	8,954,083	8,954,083
Vehicle license fee	-	-	46,474,705	46,474,705
Other revenues	-	-	189,957	189,957
Income from cancellation of debt service reserve forward agreement	-	-	12,079,000	12,079,000
Operating grants	-	24,415,601	-	24,415,601
Interest on bonds and lines of credit	(87,567,754)	(101,039,717)	(148,191,584)	(336,799,055)
Custodial credit risk loss on deposit with government bank	-	-	(13,640,410)	(13,640,410)
Net change in value of investments	-	-	133,488	133,488
Interest income	1,207,725	2,546,152	4,733,296	8,487,173
Total	(86,360,029)	(74,077,964)	89,792,965	(70,645,028)
Loss before capital grants and transfers	(22,735,687)	(190,515,243)	(289,506,956)	(502,757,886)
Capital grants	48,514,926	10,488,452	66,997,475	126,000,853
Transfers to Commonwealth	(79,800,000)	-	-	(79,800,000)
Change in net position	$ (54,020,761)	$ (180,026,791)	$ (222,509,481)	$ (456,557,033)